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MARKETING STRATEGY FOR NEW MARKET DEVELOPMENT

MARKETINGOVÁ STRATEGIE VSTUPU NA NOVÝ TRH

MASTER'S THESIS

DIPLOMOVÁ PRÁCE

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MASTER'S THESIS ASSIGNMENT

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Proposals and contribution of suggested solutions
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Abstract

This master thesis outlines the marketing strategy analysis and describes its practicability in the process of entering a territorially new markets. This master thesis intention is to analyze current situation in company ABC and use the findings and theoretical framework to determine what type of marketing tools should company use in order to succesfully enter Czech market.

Abstrakt

Tato diplomová práce vysvětluje strategickou marketingovou analýzu a popisuje její použitelnost při vstupu na teritoriálně nové trhy. Cílem této diplomové práce je analyzovat současnou situaci ve společnosti ABC a použít tyto závěry společně s teoretickými východisky k určení nejvhodnějších marketingových nástrojů za účelem úspěšného proniknutí na český trh.

Keywords

Marketing, marketing strategy, marketing research methods, marketing mix, off-price retail industry

Klíčová slova

Marketing, marketingová strategie, metody marketingového výzkumu, marketingový mix, off-price průmysl

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Declaration

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Brno, 31.8.2011

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Bc.Sylvia Kovandová

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INTRODUCTION

In today's world clothes are much more than just warming cover for human body. Clothes are about fashion trends, style, individual tastes and after all it is great business. It used to be, that people had one pair of trousers, shoes and shirt which they took out from their wardrobe only on Sundays, when they went to public places. For the rest of their days spent on the fields or in the woods, they didn't really care about clothes that much as current generation does. Today people distinguish themselves by clothes and express their attitude against society. Young people think of others based on their clothes. The branded goods changed the society. Who doesn't have branded goods may be outsider. Some kids force their parents to buy them luxury clothes, shoes, mobile phones just to win over their friends and make them jealous. Adults on the other hand use clothes to make statement about their wealth and social status. The materials which are used today considerably changed. People used to make clothes out of cotton, wool, len, natural silk and jute. Today materials consist of chemical strings such as polyamide, polyester, syntetic silk, polypropylen and so on. It requires different manufacturing, technological procedures, machinery and different confection fabrication. In addition these new materials requires different care such as lower temperatures of washing, ironing and tube drying. In Central and Eastern Europe it used to be that manufacturers were setting trends and people have no influences on the look of the clothes. Today it is the customer who is setting trends. The problem is that not everybody can afford luxury clothes from natural materials with great design and by latest trends. People are looking for similar goods but often buy cheap affordale fakes which cannot last as long as premium goods from designers. The solution is in different approach to the fashion business, different techniques and above all about building lasting relationships with producers and consumers. The fashion revolution already started and it is just a matter of time before everybody will wear latest fashion. The question is are we ready to become fashion hunters but keep our finances almost intact?

PROBLEM DEFINITIONS AND PURPOSE OF THE THESIS

The purpose of this thesis is to help company ABC decide on acceptable market entry strategy. The company desires to enter Czech off-price retail market and wishes to open stores in biggest cities where people are interested in designer goods. The company operates in some European countries already and believes that their corporate strategy of passing the value to their customers can work at any economical situation and in any land. This master thesis aspiration is to propose the most effective steps to successfully establish the chain across Czech Republic. In following text the theoretical framework and practical analyses will help to decide what decisions should be made to realize the plan. The analyses should also show whenever Czech Republic is suitable market in terms of size, location, consumers, competition, legal, economical and other aspects and if the company is capable to enter this market. The internal and external analyses as well as customer survey will be conducted to estimate the customer demand and to research the preferences and tastes of Czech consumers. For the purpose of these analyses the secondary and also primary data will be used. Based on these findings the market entry mode will be proposed so the company can successfully enter the market. The main problems to solve are therefore the form of entry, classical 4P marketing mix and additional other Ps which seems to be relevant for this type of business. The recommendations will be made for company's internet activities and procedures. The premise is that ABC can use same strategy at any market they enter with more or less uniform approach because the middle to upper-middle income shoppers exist across all the societies and their interest in branded high-quality goods is here to stay no matter of the economical situation. Other premise is that Czech Republic is attractive market and the economical environment is stable enough to generate profit for the company. This master thesis should confirm or reject those premises.

1. THE THEORETICAL FRAMEWORK

This theoretical part of diploma thesis present the most important conceptions which are fundamental in order to fully understand a contemporary issues in marketing.

1.1 Marketing

There exist a wide range of marketing definitions. The following definitions seems to be the most reputable within scholars and proffessionals.

Kotler and Armstrong (2010, p. 26) in their book Principles of Marketing say that Marketing is simply a „managing of customer relationships and that the aim of marketing is to create value for customers and to capture value from customers in return.“ On the other hand American Marketing Association (2007) defines marketing as „activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.” Where Kotler and Armstrong see the most important aspect in bilateral added value, AMA defines Marketing more closely and specify particular activities which help generate the added value.

As mentioned marketing helps generate value for company’s customers and in fact its stakeholders too. Silk (2006) says that a company should capture the added value from customers through prices and make sure that the process of capturing and creating value is of persistent nature. This process of maintaining the added value flow between the two sides can be called a marketing strategy. While realizing the marketing strategy a company have to firstly select a desired market and position where the products will be placed, means what type of a customers will company target with its products. Secondly a company must precisely plan the activities to achieve the desired position on the market. In fact, marketing strategy is a plan how to achieve company’s goals though various activities. Ferrel and Hartline (2011, p. 17) think that marketing

strategy „is a plan for how the organization will use its strenghts and capabilities to match the needs and requirements of the market“. Company's marketing then includes two major parts. As mentioned above it involves targeting the markets and creating a various marketing mixes also known as 4 Ps which include product, price, place and promotion. Later other Ps were added, eg. people or processes. To succeed against rivals, company has to choose a right combination of marketing mix or mixes. But to get to the stage of creating a marketing mix a company has to first cunduct the marketing reseach.

1.2 Foreign market analysis

If a company want to enter a foreign market the foreign market analysis should be carried out. The analysis should consists at least of macro environmental analysis, micro environmental analysis, competition research and internal analysis. A successful company should understand the existing conditions and should be able to identify possible changes in the environment. Such flexibility can bring the company a significant competitive advantage.

1.2.1 PEST analysis

A PEST analysis study four main factors which affect a company from outside. These factors cannot be influenced by the company and therefore must be well observed. (Oxford University Press, 2007) The external factors are the political, economical, social and technological forces. The PEST analysis also exist in other variations such as PESTEL analysis which includes also legal and environmental forces.

❖ *Political forces*

The political forces analysis provides the information about the political climate of the particular country. The politics have significant impact on

business environment as governments and lawmakers adopt new principles and rules. These rules and principles may be advantageous or disadvantageous. The advantage may be tax holidays, tax adjustments, the disadvantage can be certain duties to pay, environmental taxes and so on. More specifically political forces include the following types of factors:

- ❖ Government regime
- ❖ Government stability
- ❖ Market regulations
- ❖ Code of work law
- ❖ Trade agreements, tariffs or restrictions
- ❖ Tax obligation and tax breaks
- ❖ Voluntary codes and practice

The political situation can change quickly and as European Union introduces new regulations a companies should ensure that they comply with those standards and respect domestic as well as European codes.

❖ ***Economical forces***

In today's global trading the economical forces play a major role as the crisis lowers the interest rates, inflation is rising and governments are coping with high national debts. All companies are influenced by the change not only on national level but also on the global level. The buying power of stakeholders changes as the economical climate does. In the time of economical recession the buying power is lowering therefore the unemployment rises as companies must shrink their business. On the other hand the economical expansion is being accompanied by low unemployment, gross domestic product growth, creation of a new job opportunities, higher interest rates and so on. The labor costs often are the reason to change the location of business. Cheap goods from Eastern countries flood the Western markets and liquidate local competition. Ideally a company may implement the risk assessment system to early identify the possible losses caused by economical changes or turbulences and effectively

coordinate the recovery process. Especially the international companies should be aware of the importance of the economic conditions and effectively coordinates the corporate strategies so they are concordant with local market conditions as well as global ones.

❖ *Social forces*

The social aspect is described by social forces analysis. This analysis determines how much social factors influence the macro environment of a company. Such factors are culture, growth of population, population structure, natality and mortality rates, education, attitudes against life styles, but also mutual relationships, social networking, influence of friends, co-workers, and so on. Very important social factor is media which spreads information amongst people and can impress their opinions. The social forces are very important as they have direct impact on the consumer behaving. If a company wants to enter any market they must consider what type of consumers live there. A good example can be a failure of the largest company in the world Walmart, which announced the failure to enter German market in 2006. Walmart struggled to attract customers even though the offering was similar to local large discount shops. Simply the habits of Germans were so strong they would not let Walmart replace their favorite chains. Walmart experienced similar course in other countries as Japan or South Korea. (Landler&Barbaro, 2006) Globalization is bringing more changes than some can estimate. The migration creates whole new communities in Europe and therefore give more opportunity to satisfy their needs. But Europe will soon change forever as birth rates fall down and migration rises.

❖ *Technological forces*

If we look back to the 20th century we can see the huge progress mankind made in developing technologies. Not only the communication technologies but all the technologies across industries significantly changed. It is arguable which of the new technologies brought the biggest difference in way that companies operates. But marketing really profited from invention of internet. Internet

advertisement can costs fraction of what billboard campaign or TV spot does. But internet not only brought the possibility of cheaper mass marketing but also enable companies to build the information systems which help them to build better processes, improve inside and outside company communication. With help of various software programs companies can effectively administer customer orders, provide customer services, carry out various marketing research. This was only enabled by fast advancement of information technology hardware as computers, servers, faxes and so on. Therefore if a company wants to create their marketing mix, they should consider the aspect of technology available in desired country.

1.2.2 Porter's Five Forces analysis of foreign market structure

The micro environment of a company can be analyzed by Porter's Five forces analysis. The purpose of this model is to review the attractiveness and therefore profitability of a desired market. Porter (p.4, 1998) says that: „Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness. The ultimate aim of competitive strategy is to cope with, and ideally to change those rules in the firm's favor.” He identified 5 forces which can affect the profitabillity of the company and which should be analyzed by company representatives prior the market entry.

❖ *The likelihood of new entry*

As more companies enter the market those who alredy operates there are likely to experience losses of profit. But there exist wide range of barriers which make the entry difficult. Such barriers can be high investments of any kind, lack of know-how, governments restrictions, customer preference and shopping habits, lack of relationship with potential suppliers, price war.

❖ *The power of buyers*

The power of buyers is the expression of how much the buyers have influence on company's production price. Fewer the buyers lower the chance to adjust prices. Companies must find balance between price and quality to keep buyers from going to other providers. Negotiating positions is significant while the buyers have power to take over the provider's business.

❖ *The power of suppliers*

„The stronger the power of suppliers in an industry the more difficult it is for firms within that sector to make a profit because suppliers can determine the terms and conditions on which business is conducted.“(Oxford university press, 2007)

The negotiating position of suppliers grows as their numbers decline and when it shows that it is costly or too complicated to stop the cooperation and go to other supplier etc.

❖ *The degree of rivalry*

The rivalry analysis shows how much the companies within the desired sector compete with each other. If there exist a market full of equal competitors then it is unlikely that one of them will make huge profits as if eg. there were only two or three of them. Other factors are level of capacity utilization, decreasing market demand or customers being likely to change their preferences.

❖ *The substitute threat*

It is the last force which is part of company micro environment. It represents how easily can consumers switch to another product of same functioning. Consumers often decide based on price of a product so if they want buy a price plan with eg. T-Mobile but Vodafone also gives them some extra service, it is likely they will change the operator. On the other hand if a company has closed down the deal with T-Mobile and ordered 5000 phones and headsets with cheap

price plan it would probably be too costly for them to swap the service for another one and they also may be legally committed.

1.2.3 Generic competitive strategies

The generic strategies are the strategies which help a company to surpass their competitors. Prof. Porter (1980) described three type of strategies.

❖ *Cost leadership strategy*

The aim of this strategy is to surpass the competitors by producing products or services and having lower costs than the competition. A cost leader decides for a small range of differentiation of products to keep the costs to minimum. The main threat in applying this strategy is in risk of technologic advancement. A company's production technologies and know-how can be deteriorated by new modern technology. A company which invests in development and research of technologies may significantly lower their labor costs in future and therefore overcome the cost leader

❖ *Differentiation strategy*

The significance of the differentiation strategy is to achieve the competitive advantage by creating the product or service which are being perceived as different or special. This differentiation is displayed in price which is above average and much higher than the price of a cost leader. The disadvantage of this strategy is that the differentiation can be imitated and therefore less important for the customer. Companies which choose this strategy and identify the special features of their product should cut other than costs of this differentiation. Ideally the costs of such company should be equal to other companies with similar differentiation so the higher price won't lose its effect on profits.

❖ *Focus strategy*

This strategy focuses on the satisfaction of needs of narrow groups of consumers or clean-cut segment. Such strategy finds opportunities in the market gaps. When the clean-cut segment is chosen, a company can choose from two focus strategies. It is the cost focus strategy and the differentiation focus strategy. Both of the strategies rely on the differences between the chosen segments which the company concentrated their efforts on and other segments in the industry. A company with applied focus strategy profits from the fact that competitors with wide range of interests don't perform optimally. Competitors may not be able to satisfy a needs of the consumers and then there is a space for differentiation focus strategy. The cost focus strategy takes place where competition's cost are higher within chosen segment, and then it is appropriate to serve this segment. Again the disadvantage can be the possibility of imitating and loss of interests from customers as well as the entrance of new companies.

1.2.4 Estimation of customer demand

The sources which are commonly used while predicting customer demand are either primary or secondary data.

❖ *Secondary data*

The secondary data are the type of data which has been collected by other person for other purpose. Such data are cheaper to get but the usability can be lower due to the fact that the data has been collected in past and for different reason. Therefore if a company is using the secondary data to estimate the demand, the data must be as actual as possible and with similar scope of interest. It is recommended to first start analyzing secondary data and then to start collecting primary data. There exist wide range of resources of secondary data. All the E.U. members have their local statistical bodies as well as direct link to the European Statistical Bureau. Data available from these resources can be eg. demographical data, macroeconomical data, regional information,

industrial data, data about prices of energies, services, properties and so on. Other sources of information can be local municipality, regional authorities, ministries and other institutions. There also exist wide range of online databases of journals and statistical data which can be usable, but here yet again depends on its recency. (Blažková, 2007)

❖ *Primary data*

The source of primary data is always a marketing research. Such data are collected for exact reason therefore its accuracy is maximal. However costs of such reasearch are significanttly higher. Other disadvantage of collecting primary data is the time demandingness. There exist few quantitative methods of data collecting. It is the method of questioning, observation and experimenting. Questioning can be conducted in different ways. It usually is the direct questioning. The advantage of this method is the direct contact with potential customers, feedback possibility, availability of various presentation instruments and high backflow. Next form of this method is written form. Companies can contact consumers by post. This form of method is cheaper than the previous one. This method is disadvantageous in terms of low backflow, lack of comprehension and scepticism. Other form of this method is telephone questioning. This form is not as impersonal as written form and is much quicker, accurate and reliable. Last commonly used form of questioning is the electronic data collecting. This form is cheap, quick and easily addressed but similarly like written form can be uncomprehended. Other issue is that not all the households have internet connection. Types of electronic research are eg. the questionnaire on a web sites, pop-up windows, polls, target email questionnaire, bloggs, discussions and so on. The most common quantitative methods are Microsoft Excel Pivot Table with graphs and functions which help evaluate wide range of information. The so called contingency tables gives in the context of two or more factors and are easy to use. Other method can be the causal analysis which explores and evaluates links between several factors and help to understand the topic in depth. The statistical methods which can be used in marketing research are correlation analysis which is looking at the

relationship between two variables and the regression analysis which measures the dependency of those factors on each other. Econometric models help simulate alternative scenarios of economic policy by examining the consequences of certain decisions and forecasts on the development of economic indicators. The method of time series suggest the nature of processes. Time series is a series of numbers, eg. economic variables, which are sorted from oldest to newest, or vice versa. The basic aim of time series analysis is to understand the principles upon which values are generated in series. There exist a wide range of methods for analyzing time series, such as expert methods, decomposition of time series, or graphical analysis.

Other than quantitative methods can be used. Those are the qualitative research methods which can be used if a company wants to know consumer's opinions, motives or reasons for certain buying behaving. The methods can be also used when a company is introducing new product and wants to test it. Most common qualitative research methods are the focus group, where a group of selected respondents answer questions about the products, present their prompts and express their points of view. Next is brainstorming which is being used again in group sessions. Other method can be the in depth analysis where respondents are closely asked selected questions and participate on tests. The most common qualitative methods of information processing are conclusion analyses of brainstorming sessions, focus group sessions, individual sessions, Delphi method where experts from the field gives their predictions and views and the analysis of cross effects which estimate the relationships between multiple predictable phenomena. (Blažková, 2007)

1.3 STP strategy concept

1.3.1 Segmentation

The segmentation is one of the managerial methods of market analysis. The structure of a market is in this case the main interest of the segmentation. A market can be divided into several segments of customers. Every of these

segments is having certain characteristics such as particular needs or customer behaving. The aim of marketing is to identify those segments clearly with their differences and find ways to satisfy them. A company focus should be on those segments which can be served not only in short term view but also in long term run. The company strategy should be in accordance with this segmentation choice. The segmentation of the market should start with the market research. This research provides the segmentation gauge. Next the uniform categories are to be created based on research. These categories represent the customer segmentation, their sizes and profiles. There exist wide range of criterions of the segmentation. Most acceptable criteria within scholars seems to be the demographic criterion where potential customers are divided by age, sex, nationality, status, belief and so on. The geographical criterion divides customers by their location. It can be either regional, national, continental or even intercontinental segmentation. The socioeconomic criterion traces the socioeconomic status, occupation, education, incomes and so on. The psychological criterion divides customer by their values, opinions and hobbies. The buying behavioral criterion is also important as it helps a companies to estimate the volume of sales, attitude against risks and willingness to close the deal again. (Machková, 2006)

1.3.2 Targeting

The targeting is virtually the next step after the segmentation of the market. In this case the aim is to choose from identified segments of a market. Such choice affects three factors. Machková (2006) says that it is a size of the segments, the potential of growth of a segment and the attractiveness. The chosen segments must be rentable for the company and its marketing. The segments not only must be big enough to provide sufficient incomes, but also the company must have enough resources to satisfy them. Especially while a company wants to enter a foreign markets it should also consider other aspects of the expansion such as the company image abroad, competencies and so on. The trends in medium to large enterprises are to create uniformity in marketing strategies and bring same

products onto various markets in different countries. This global approach to the targeting and positioning helps a company to serve much larger segments of customers and gain profits in multiple countries while cutting costs.

1.3.3 Positioning

„The positioning is the crucial decision making of the strategic management of a company. It is the expression of the standing of a product between the other products offered on the market. This allows a company to adjust the offering accordingly to the changing environment, buyers expectations and strenght of a competitors.” (Machková, p. 102, 2006) A marketers therefore must consider the importance of creation a company brand and its image to atract the potential customers and take place in their mind. To further develop and maintain the position in customer’s mind, a companies design the communication campaigns, set up PR departments and produce advertisement of all kinds. The positioning needs to be realistic while considering the company capabilities and at the same time must reflect the expectations of a customers, highlights the competitive advantage and be trustworthy. Especially in the international marketing there should be three factors considered while creating the positioning strategy:

- ❖ *The objective characteristics of a product* (technical parameters, use values, product life cycle etc.)
- ❖ *The expectations of foreign customers* (the relationship between product origin and the customer’s perception of the foreign product)
- ❖ *The competitors position on the foreign markets* (the market share of a domestic and foreign companies)

A company can choose either the global positioning or country specific positioning where above all the cultural differences play major role. The global positioning main advantage consists in cost cutting and the possibility to use one global marketing strategy on the various markets. However the global

positioning is more often use in companies which produce homogenous products with low social or cultural differentiation, electrical goods, cars or any other technologically goods. (Machková, 2006)

1.4 Marketing mix, 4P conception

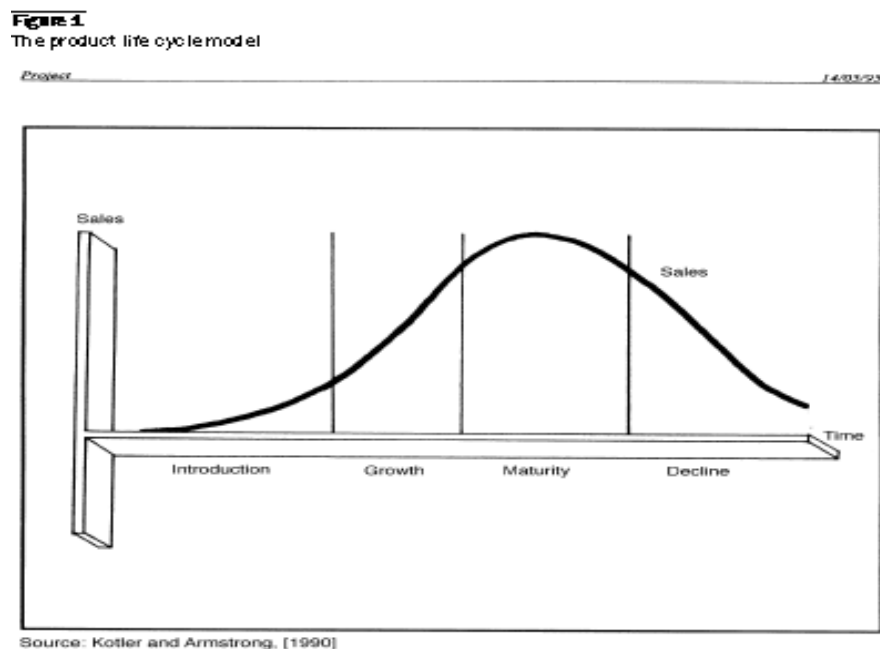
In 1964 prof. Borden (1964) from Harvard Business school describes how the term Marketing mix emerged. He says that the term came from early 1950's when he started to use it after reading a text from his colleague prof. Culliton, who describe decision makers as those who mixes various ingredients to obtain desired recipe. During decades term Marketing mix fixated as combination of so called 4 Ps: product, price, place and promotion. These 4 Ps represent internal factors which help company affect customer behaving. A company should sought after harmony between those factors and combine them so they bring effectiveness and creates synergy effect. (Zamazalová, 2009)



Picture 1: Marketing mix (ENISA, 2011)

1.4.1 Product

Product can be any tangible or intangible commodity which is being sold or bought on the market. Product's main principle is in bringing value to a customer. Product is often the main factor for manufacturing companies. In case of cross border business activities, it is also advisable to do a research whenever the product will fit local market needs. A product is also characterised by its life cycle. As shown on Picture 2, product life cycle sustains of 4 different stages. First stage is the introduction of a product to a market. Second stage is when product succeeds and the sale grows. In the third stage market is saturated and in final stage it's time to leave the market with the product and introduce new product strategy.



Picture 2: The product life cycle model by Kotler and Armstrong (Emeraldinsight.com)

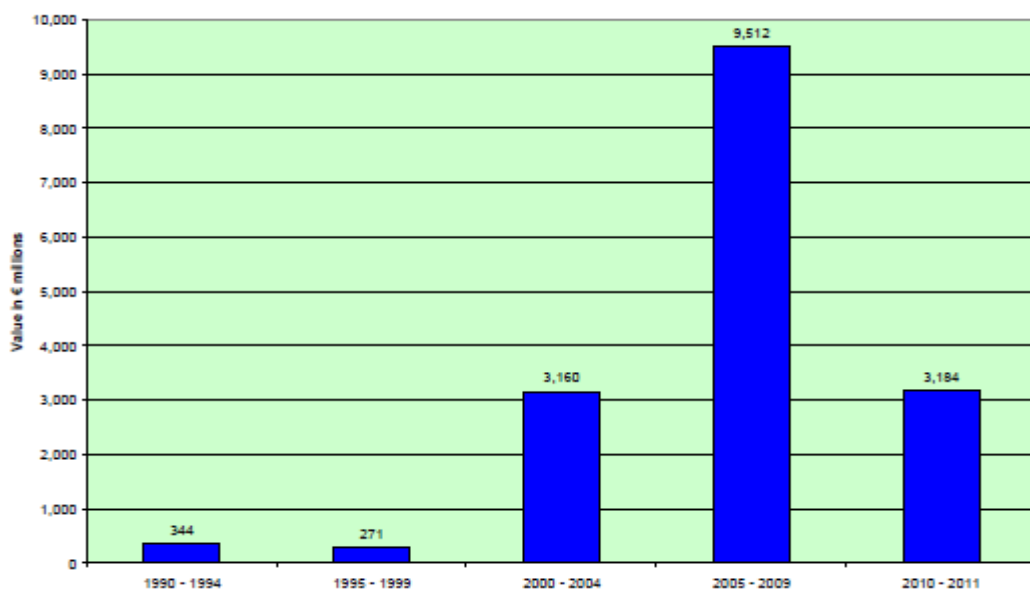
While introducing a new product to a foreign market a company must comply with more than just a customer needs. Especially in European Union companies while realizing their business must comply with e.g. health and safety

regulations, technical norms, environmental norms, legal regulations, economic aspects respectively tax systems. European Union lays down legal framework for producers of all non-food products in General Product Safety Directive. The directive states product safety requirements, describes safe product and handles alert system on dangerous products. As per this directive, producers can sell only safe product which comply with EU standards. Member states are obligated to ensure the standards are met and to impose penalties if not. (European Communities, 2006) To ensure standardization and harmonization of products by 1992, E.U. issued Council Resolution of 7 May 1985 on a new approach to technical harmonization and standards, Council Resolution (85/C 136/01) - Official Journal C 136 of 4 June 1985. (Europa.eu, 2011) Those products which meet the E.U. requirements can use the CE marking. Mainly a stakeholders in large to global companies demand the ISO standards to be implemented. Some of the most applied norms are ISO 9000, ISO 9001, ISO 9004, ISO 14001, ISO 14004, ISO 19011, ISO 10012, ISO/TS 16949.

1.4.2 Price

Depends on size of a company the prices are created either by responsible managers or directors themselves. In some specific industries as petrol, automotive or chemical industry there exist specialized teams responsible for price strategy. The members of these teams may report to the top management members or to sales managers and financial managers. Price has real impact on company's profits. Price is a moneyed interpretation of product's value. The prices are often created based on calculated costs per unit and sales margin after taxation. (Kotler&Keller, 2007) The height of a price is usually influenced by a internal and external factors. The external factors can be categorized as market character, demand, competition and customers. Among internal factors are company's marketing goals, marketing mix, product differentiation, cost and corporate strategy. A company can choose between three main methods. It is the cost orientated method, competition orientated method or value orientated method. Furthermore a company can impose strategies implied from corporate's

goals, strategies related to the product life cycle, strategies implied from production series and so on. (Jakubíková, 2008) The price is very often influenced by competitors. A market leaders can use their market position while creating the prices. Those market leaders can apply prices much higher than the rest of the market players. Such price war can sometimes be used as a effective tool when eliminating competitors. Mainly in the stage of introduction of products some companies may optionally choose to lower their prices below costs to displace rivals and to capture the market share. This approach can be seen by large global companies such as Tesco who implement lowest possible prices to not only compete with other food chains but to also attract the customers who usually shop in small local shops. The European Union aim is to keep the competition fair and to avoid various cartels or monopoly and other injustice on the European Markets. European Union constantly monitor the European markets and global players who may be in a breach of E.U. regulations. Following graph shows the fines imposed by E.U. on cartels in last two decades. The most fines were imposed between years 2005-2009, the least in between 1995-1999. Current numbers for 2011 predict similar developement as between 2000 to 2004.



Graph 1: Fines imposed (adjusted for Court judgements) – 1990-2011, Ec.Europa.eu, 2011

1.4.3 Promotion (Forms of marketing communications)

The simplest definition of a promotion is that it is an activity such as sales or advertisement leading to an improvement in brand awareness and volume of sales. More precisely, promotion is also a marketing communication. The importance of a promotion is evident as competition grows bigger and communication channels expanded over the last few decades. More or less all companies use some kind of marketing communication. It doesn't matter whenever they are from B2B, B2C or non profitable segments. (Shimp, 2007) In the middle of 20th century marketing communication changed dramatically. It was no longer one way communication where manufacturers were setting trends and influencing consumers to buy their products. The expansion of communication tools started a new era of marketing. In this concept there exist two ways of communication, the manufacturer to consumer type and conversely. In order to maintain this kind of relationship there must exist a system of information exchange between buyer and seller. To better catch what consumers want and need a company should build an information system where the data will be stored and maintained. Such databases may be used for sales forecasts, new offers, product innovation etc. (Schultz et. all, (1993)

Primary forms of marketing communication and also the oldest type of communication media is a television, radio and newspapers. Thanks to fast innovation in technologies and birth of internet, marketing communication are now widely covered by some type of digital media. Most commonly, companies are running some corporate websites. These websites can be only a company presentation or fully functional e-shops, portals with functions for suppliers and buyers. Based on table 1 we can distinguish between six main marketing communication platforms:

- ❖ Advertisement
- ❖ Sales support
- ❖ Events, Experience
- ❖ Public relations
- ❖ Personal sale
- ❖ Direct marketing

Table 1: Common communication platforms, (KOTLER & KELLER, 2007)

Advertisemet	Sales support	Events, Experience	Public relations	Personal sale	Direct Marketing
Printed and broadcasted	Contests	Sports	Journalist's packages	Sales presentations	Brochures
Outer packaging	Games Lottery	Entertainment	Manifestations	Sales meeting	Telemarketing
Inserted advertisement	Gifts	Festivals	Seminars	Stimulating programs	Telesales
Movies	Samples	Art	Annual report	Samples	Electronic buying
Brochures and promotional stationary	Fairs & exhibitions	Opportunities	Charitable gifts	Fairs & exhibitions	
Posters and leaflets	Discounts	Factory tours	Publications		Teleshopping
Directories and catalogues	Vouchers	Company's museums	Relationship with a community		Promotional faxes
Reprints of advertisements	Financing	Street activities	Lobbying		Promotional emails
Billboards	Entertainment		Identity media		E-bulletins
Banners	Loyalty programs		Company's magazine		Promotional SMS messages
POS displays	Exhibitions				Voice mail
Audiovisual material					
Symbols and logos					

1.4.4 Place

Place is yet another key part of traditional marketing mix. The place is the determination of where and how a product will be sold. This part of marketing should mainly focus on a distribution channels, availability of the distribution channels, sales range, supplying and transportation. A distribution is an activity which brings products to a customers. The quality of such distribution may significantly contribute to the success of company's business. In today's fast paced world, people demand a quality product for acceptable price and with effortless delivery. Especially the convenient delivery completes customer satisfaction and help build better relationships with them. Therefore it is important how a company will choose their distribution channels. When creating the distribution mix a company must consider all types of distribution. Depends on the nature of business, a company can choose e.g. wholesale distribution, retail, via agents or combination of them etc.. Every distribution requires some type of trade agreement between seller and buyer, therefore creates company's liabilities. On the other hand if a company chooses to sell a franchise, trade with large stores or with freelancers it loses their profits and the opportunity to adapt quickly to the changing conditions. The distribution policy must comply with turbulent environment and must be adaptable. The length of a distribution channel is often the factor of success. Well considered combination of direct and indirect channels may lead to cost cutting and improvement in process effectiveness. A direct channels are used when delivering a product directly from a producer to a consumer within B2C model or corporate client in B2B model. In B2C more often we see an indirect method of a distribution via retailers. In B2B retailers are replaced by a distributors. (Kotler et al., 2007) Depends on the size of a company the distribution channels grow and may involve many companies. Every involved company should have its role in such supply chain. Good example can be car manufacturer Škoda Auto whose supply chain involves many car parts manufacturers. Their existence depends on car maker's ability to use the parts to construct cars and then sell them to broad public. Further, there exist different models to follow while creating distribution channels. A company can

choose to operate vertical, horizontal or even hybrid system. In vertical system, independent companies with different position close lucrative contracts to e.g. cut cost of distribution or to achieve an increase in sales. In horizontal model, two or more companies on same level can start a cooperation or even create one new company to gain competitive advantage and profit from wide range of interests. Hybrid system is a system where a company created one or more distribution channels to a consumers. Such system can include direct sale, wholesale, retail, agent services or distributors. In today's business environment there exist tendencies to cut the middlemen and save as much resources as possible. However, careful consideration is needed whenever cutting the middlemen is always advantageous. (Kotler et al.2007) Freedom of European markets brought very new business opportunities for companies across European industries. Not only large multinational companies may now operate on different markets, but also small and medium companies can plan their expansion abroad. But international distribution is much more complicated than the domestic one. Every country has its own unique infrastructure and distribution ways. While entering such new distribution web a company may evaluate with whom to work with and on what terms.

In addition to these four key elements of a traditional 4P model another one or more Ps were added. People, processes and physical facilities are other contributing elements to be added alongside traditional 4P marketing mix.

1.5 Marketing mix, 4C conception

The 4C conception of marketing mix has been introduced by Robert Lauterborn (Schultz, 1993). It stands as an opposite to the traditional 4P conception which has been created as from the company's point of view. But this new view on classical marketing mix is more focused on the customer added value. This theory claims that firstly a company should create the 4C mix rather than 4P mix. The 4C marketing mix is close to the customer services approach and

principles of customer relationship management technics. The 4Ps were replaced by 4C as follows:

- ❖ Communication
- ❖ Customer cost
- ❖ Customer solution
- ❖ Convenience

The communication in 4C model is intelligibly equal to promotion. Customer cost is an opposite to pricing, customer solution stands for product and convenience equals place. In whole this concept shifts all the focus on customer's needs. This model's aim is to make a buying as easy as possible with focus on customer added value of the product and friendly and justifiable price. The promotion turned to communication helps to develop friendly customer attitude towards buying the products rather than just promoting it. Various types of advertising in media, on social networks or websites can be used to communicate with customers.

1.6 Web marketing mix, 4S conception

This conception has been introduced by Efthymios Constantinides. (2002) He pointed out the deficiencies of traditional 4P concept and created an invented 4S model. He claims that traditional marketing mix is better tool for physical marketing but not a good choice for virtual marketing. In his opinion the traditional model lacks strategic dimension and the importance of 4Ps decrease significantly. He argues that „the basis for successful E-Commerce is the full integration of the virtual activities into the company's physical strategy, marketing plan and organisational processes.“ (Constantinides, p.1, 2002) His model for the management of the online marketing list following elements:

❖ *Scope*

This part covers four decision areas. Firstly it is a market analyzing, including the analysis of competitors, market potential, market trends and market forecasts. Secondly, it is a customer area, where a company should be interested in nature of its customer, in his needs, motives to buy, requirements, and his shopping history. Thirdly it is the internal analysis that need to be carried out to reverificate the website benefits. Lastly the focus is on the strategic role of the website based activities. The author of this model distinguished between informational, educational, relational, promotional and transactional activities.

❖ *Site*

The companies which are involved in E-commerce creates the corporate websites to communicate with their customers. Such websites works as the portal where a customers and stakeholders can access information and get data about e.g. the products, services, promotions, product presentations, mission, annual results, customer service contacts and so on. The delivery corporations like DHL, Amazon, Dell and others link their extranets and intranets to give its users even more actual information. A successful website must comply with certain parameters. The parameters are well known domain, high security and privacy policy. If combined well they build up customer trust. The design, page navigation and search engine's quality plays important role in customer decision making. With still growing speed of internet the website must be quick and easy to explore. A market research should be carried out to define customer expectations, motive to use the website and willingness to come back again.

❖ *Synergy*

Term “Synergy” presents the allignement between three key components necessary for the realization of a virtual company's objectives. The components are the Front office, Back Office and Third parties.

Front Office

In this model the front office's role is to implement communication and distribution strategies. The main objective of the front office is to fully integrate the virtual operations into the company's communication strategy. More closely the front office is managing the connection of the virtual marketing activities with other parts of company's marketing. A companies display uniform communication strategy in e.g. same branding, uniform company logos and propagation.

Back Office

The back office integration focus on establishing the connections between virtual activities and other company's processes. That means full integration of customer services, order administration and logistics with actual processes. Such integration can be a driver for innovation of the processes and help a company to adapt to possible market changes more effectively. With growing demands for internet speed the IT infrastructure must be adjustable and reliable. Poor web performance can have significant impact on the company overall performance.

Third parties

The third party integration in this model represents the partnerships and relations between the company and other subjects involved in the company's marketing activities. Such companies can offer e.g. complementary marketing services. World known web engine Google offers many online marketing services which help their clients perform better on virtual market by e.g. making them more searchable on the internet, posting their banners across popular websites or send target emails to a random email addresses. The aim of this marketing tool is to bring traffic to their client's website and therefore help raise the revenues. A companies can also create various networks by posting the online advertisement of an allies on their website and vice versa. There exist wide range of online marketing tools.

❖ *System*

It includes the entire operational and administrative aspect of technological indemnity of the website. The system stands for all hardware and software equipment needed for website service. Some companies outsource the IT services, so there arise extra costs for network infrastructure. In case of the online e-shops companies usually invest in transactional systems. A various forms of payment method multiply the chance of a won customer, history tracker can reveal what is the customer favorite brand or how often he shops and how much he spends on which goods. More sophisticated the IT systems are the bigger the demand for trained staff. The IT system aspires to be helpful and justifiable tool but also it needs to be easily manageable. (Constantinides, 2002)

1.7 Strategic marketing plan

1.7.1 Trends in European marketing management

The European environment changed dramatically in past 30 years. Today European union sustains of 27 member states and creates an international market place never seen before. The unification of Europe creates a free market with free movement of people, capital, goods and services. This leads to better resource allocation, lesser administration costs, more transparent transactions and better opportunities to expand to a foreign markets. The factors which influence such international market place are of economical, legal, social and cultural nature. The stabilization factors are the Euro implementation and the existence of the institutions which guarantee the balance of economic competition. However the disadvantage of such market place can be a loss of a company competitiveness. (Světlik, 2003) The international companies therefore seek new opportunities outside their home markets and choose to entry a foreign markets.

1.7.2 Market entry modes

There are many types of market entry modes. The decision on how to enter a foreign market is the key decision of international marketing. (Machková, 2009) A company can choose from various types of the entry modes. The initial selection of the entry mode is influenced by many factors. The factors can be the riskiness of business on foreign market, company's competitiveness or targeted market's potential. There exist different types of the entry modes. (Štrach, 2009) The common entry modes are the import and the export operations, licenses, franchising and foreign direct investments. These entry modes can be further divided. Pan & Tse (2000) distinguish between an entry modes by the role of an equity. A capital entry modes are e.g. a joint ventures with various percentage of a ownership. The joint venture can be based on a minor ownership with less than 50% share, a share of 50% or with major share of more than 50%. Each of these types of joint ventures yield different business strategies to be applied. Where a joint ventures are inapplicable or impossible to contract, a greenfield or brownfield investment and acquisition or even a consolidation entry modes can be chosen. A non equity based entry modes are the licensing, franchising, managerial contracts or production contracts. Different types of the entry modes gives the maternal company a different degree of authority. Therefore the desired entry mode should be alligned with the initial business strategy and should reflect the maternal company interests in a foreign market. Where the acquisitions are more preferred by multidomestic companies, the greenfield is more likely the choice of a global companies. (Harzing, 2002)

The entry mode should be chosen based on the results company is looking for. A companies whilst going abroad have many motivation. The major drivers of the expansion to a foreign markets is the company the resources augmentation. Meyer et al. (2009) introduce a new attitude in the entry mode decision making. They compare the transaction cost analyses earlier described in literature, with a new resource based approach. The authors emphasize the importance of local market knowledge. While e.g. choosing the licensing entry mode the transfer of

information is lower than while acquiring local well established company. The authors suggest that the knowledge intense companies are amongst those which use the resource based analyses to choose the right entry mode.

1.7.3 Managerial styles

Nonetheless a marketing activities on the international level more or less depends on the managerial styles. There exist four different types of managerial styles. A companies can be ethnocentric, polycentric, regiocentric and geocentric. (Wind et al., 1973) The ethnocentric companies based their success on home market. The independency of the subsidiaries are limited. The key roles are taken by expatriates and the investment decision are made by maternal company. The advantage of such setup is the multiple employ of know-how and central cost control. The disadvantage of this style is the cultural unreadiness. The polycentric style of completely independent subsidiaries with localised staff and its own marketing strategy prevent the synergy effect of the international cooperation. The regio and geocentric companies see any country boarders as limits of for their business activities. They trade worldwide and creates global marketing and other strategies. They often replicate a successful businesses in other regions. The company brands is presented the same in all regions.

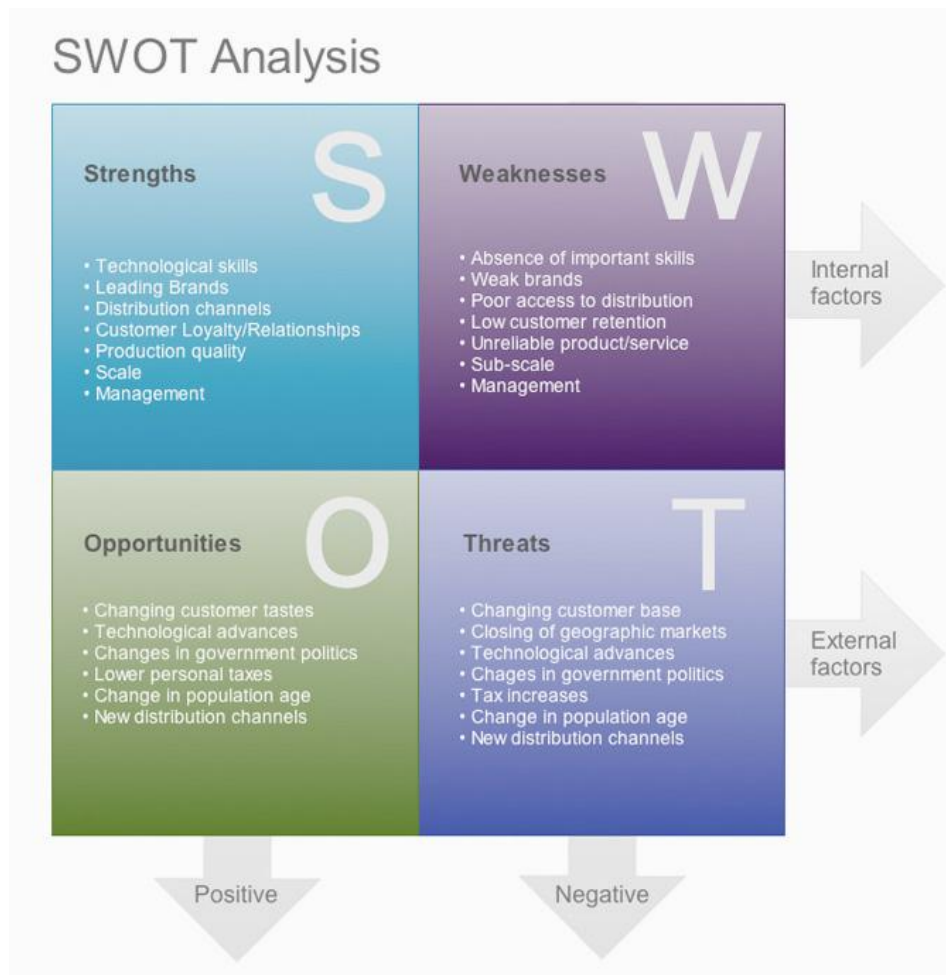
1.7.4 Marketing situational analysis

„The marketing situational analysis deal with a marketing situation on market and its position in three time horizons. It is the up to now progress, actual stadium and the future development projection. The main method of the situational analysis is the SWOT model. Main outcomes of this analysis are the identification of company's strenghts and weaknesses and also of their competitors and profile of the company with the definition of opportunities and threats evolving from external environment.” (Kozel,p.38, 2006) Other method

can be marketing audit which is more detailed than SWOT analysis. Marketing audit is orientated in detailed assessment of marketing environment, marketing strategy, organization of marketing, marketing information system and so on. In order to conduct the situational analysis one should get to know the company and understand its business. It is appropriate to look at the company in context of the whole industry and its development to better get the information about company's position, assortment and target markets. The situational analysis may be performed of current marketing tools analysis, cost items, competitive position, design of SWOT analyses and determination of strategic issues. (Kozel, 2006)

1.7.5 SWOT analysis

SWOT analysis is considered as the effective and simple tool to explore the possibilities of change and development. Its outcomes can be used for decision making at various levels. SWOT analysis inspect future possibilities through systematic self examination focused positively and negatively. It's a relatively simple way to communicate ideas, images and other policies. Probably the most significant advantage of the SWOT analysis is that regardless of the findings managers themselves may decide to boost strengths, foreclose weaknesses, improve the opportunities or avoid potential threats. Following picture illustrate the SWOT model which is the foundation for strategic and tactical development.



Picture 3: The SWOT model, (Gliffy.com, 2011)

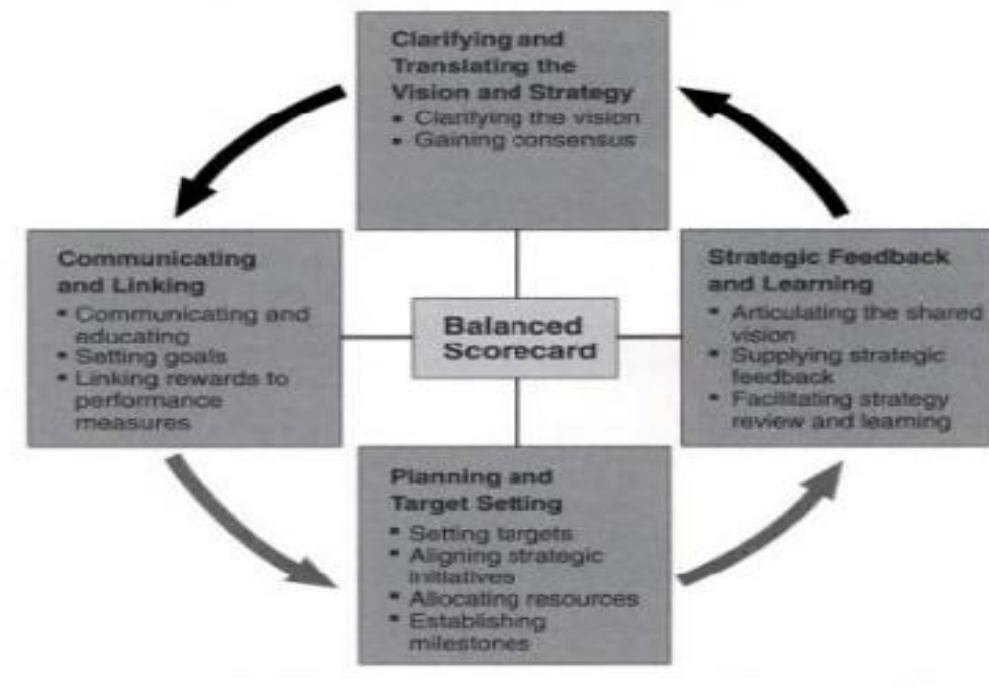
1.7.6 Balance scorecard

Essential premise for successful development and direction of the company is a clear formulation of long-term goals, thus creating the vision and mission.

Mission presents simply why the company exists and what it does. It outlines the basic and unique purpose of a company, and briefly describes what the company does and for whom it does. Sometimes it also includes a description of how the company will achieve its purpose of existence. Vision summarizes what the company wants to be, describes the future as significantly different

from the present by identifying the major long-term changes in the company. Both vision and mission can identify important core values and company beliefs. The aim of vision is to inspire stakeholders to participate in creating future businesses. But these two documents have no value unless the strategy and vision are truly allied to the business activities. To find out if they are allied there must be a system of metrics which help companies measure their performance. Prof. Kaplan (Kaplan & Norton, p. 25, 1996) says that „ the balance scorecard translates mission and strategy into objectives and measures, organized into four different perspectives: financial, customer, internal business process, and learning and growth. The scorecard provides a framework, a language, to communicate mission and strategy; it uses measurement to inform employees about drivers of current and future success.” These perspectives can track not only financial results but also how companies are able to provide tangible and intangible assets necessary to their growth and competitiveness, create value for both current and future customers and how to improve the quality of human resources, systems and procedures, which are essential for improving future performance. It is quite common, that companies measure their performance based on financial results in both short and long term view. Sometimes, it may be the case, that company invested in expensive training of employees and in short term view the financial analysis would show this as decline in assets, but balance scorecard reveals, that besides the actual investment a company will profit from this training in long term run and therefore the performance has not worsened at all. Prof. Kaplan and Norton (1996) suggest that financial and nonfinancial metrics should be part of a company's information system and that all employees should have access to them. Means that eg. workers in 1st line desk can see how much profit they brought to the company by closing deals, solving reclamations and so on. Also the managers can therefore organize their employees and manage them accordingly. The balance scorecard is not only a measurement tool, it is also a strategic tool. Thanks to the measurement focus, balance scorecard helps to clarify the strategy and vision, communicate and align measures and strategic objectives, plan, set targets and align strategic initiatives and support feedback

and learning. Picture 4 shows an example of a strategic balance scorecard in a company. (Kaplan & Norton, 1996)



Picture 4: Balance scorecard as strategic framework for action, (Kaplan & Norton, 1998)

THEORETICAL FRAMEWORK OVERVIEW

The aim of this part of master thesis was to define fundamental concepts which are necessary to understand the issues which are related to the creation of strategy for territorially new markets. The master thesis lists those concepts which are widely accepted by academical community and highlights those which will be practically applied in the following text. Every company while entering new markets must conduct foreign market analysis (ch.1.1) to be able to identify how stable or unstable the macro environment is. Based on this analysis company may be able to decide for entry but such decision is risky and therefore the micro environment should be also analyzed prior the entry. Most accepted analysis of micro environment is Porter's Five forces analysis. (ch. 1.2.2) When these analyses prove that a company could probably succeed the STP strategy needs to be introduced. (ch.1.3) The STP strategy or rather Segmentation, Targeting and Positioning creates basis for Marketing mix (ch. 1.4). Because this thesis purpose is to describe the new market entry of a American company to Czech republic the last chapter discuss the contemporary issues in European marketing such as trends in European market entry strategies (ch. 1.7.2), the managerial styles (ch. 1.7.3), marketing situational analysis and its methods (ch 1.7.4), and presents the balance scorecard (1.7.6) as the effective tool for both the implementation of strategy and feedback system.

2. PROBLEM ANALYSIS AND CURRENT SITUATION ANALYSIS

2.1 The off-price retail industry analysis

The off-price retail industry exists around companies who buy designer clothes and accessories from major premium labels at discounted price and then pass a part of this great saved value onto their customers. Most of the world wide known boutiques order the clothes by season, style, sizes and so on, They cannot really sell some goods and not having eg. all the sizes available. Their pricing policy display this fact by higher prices for customers. The off-price retailing serve the special niche in fashion industry and gains profits from designers mistakes in planning and design itself. The companies which operates on this market usually rely on quick stock turnover and high volumes. If there is an excess stock somewhere off-price retailers can redistribute it effectively into any other stores within the chain. That is why sometimes you can find a very rare items on some of the stores within the chain. The most important aspect is that off-price retailers rely on their good relationships with designers and on lean cost structure which enables them to cut costs as much as possible. Most of the retailers buy clothes directly from designer's factory stores and transport it to hired storages usually operated by third parties. This outsourcing is effective tool not only because of cost cutting effect but also because of geographical position of these outsourced storages which are conveniently deployed around transportation channels. Off-price retailers such as ABC build their success on the fact that people love designer clothes, shoes and accessories but don't have money to buy it. So when they discount such goods people will buy it no matter that they have to search for it in more than one store. On the other hand designers can sell all their stock and therefore prevent large losses. Often the off-price chains have agreements with designers and when they buy abnormal stock in large quantities they get discount on normal

stock as well. That secures the quality of the off-price stores and brings people to the shops.

2.2 About ABC a member of TYX companies group

ABC is a part of highly successful corporation TYX companies Inc. History of this corporation goes back to 1920's when Feldberg brothers founded New England Trading company in Boston. The business was successful and company opened their first woman hosiery shop. It took them 20 years to build a whole chain of stores across USA. In the mid 1950's descendants of the two brothers followed up on their father's legacy and created the Zayre discount department store. It was in 1970's when merchant Cammarata got chance to build a new off-price chain TX EX. The company grew into The TYX Companies, Inc., which today is the leading off-price retailer of apparel and home fashions in the United States and worldwide, offering great fashion, quality and brand names at excellent values every day. TYX companies operates various brands in USA, Canada and Europe. In USA it is TX EX, Homegoods and Marchalls, in United Kingdom since 1994 ABC and later Homesense, in Canada since 1990 Winners, later Stylesense, Homesense and Marchalls.

ABC first opened their stores in 1994 in United Kingdom and Ireland. Ever since they became number one off-price retailer in Europe. In 2007 ABC opened their stores in Germany and latest stores were opened in Poland in 2009. ABC is off-price chain retailer which offers womens, mens and kids clothes, accessories, shoes, kids toys, books, luggage and other family equipment. Currently there exist 307 ABC stores. Company management believes in European market potential and estimate that as much as 800 stores could exist there. Closest store to Czech republic is in Dresden Germany and in Belsko Biala Poland. TYX business model is built to have tremendous flexibility and grow through economic turmoils as well as upturns. In 34-year history as a company TYX achieved consistent and strong performance. Over the last 15

years, the company delivered annual comparable store increases in each year, and earnings have increased. TYX companies Inc. believe that „value is here to stay“ and therefore the customers will shop there again no matter of economic situation. For 2011 company plans to cut the costs further up to 75 mil. USD. In 2010 the company generated 2.1 billion USD in cash and their after tax return on invested capital reached 20%. The company plans to increase the capital spending up to 825 mill. USD on the growth support of the infrastructure and supply chain. For the year 2011 TYX Inc. also plans to rebuy their shares for 1.2 billion USD. Typical ABC's customer is middle- to upper-middle-income shopper. The company management suggest they have the widest customer base across many countries and that they have potential to even strenghten their position. In 2011, company's marketing activities are more aggressive and orientated on those consumers who have not shop with them yet, emphasizing that TYX Inc. sells only current fashions at great values. The main difference between TYX companies resp. ABC and other fashion retailers in Europe is the continous cost cutting. Being low cost operator enables them to offer big brands at small prices. The brands at ABC are Ralph Lauren, Tommy Hilfiger, Calvin Klein, Diesel, Replay, Quicksilver, Billabong, Roxy, Surfanic, Bench, Hurley, Nike, Puma and many more. There exist business contracts between designers and ABC and therefore the clothes are being delivered fresh every two days or so. When manufacturer produces some clothes that are hard to sell to classic distributors ABC buy such goods and offer to purchase large quantities of this unwanted stock. The goods are then sold at low prices with some good manufacture's stock. But this stock is typically bought cheaper since the manufacturer is happy to get rid of bad stock even when they loose some revenues on the first class goods. ABC also buy oversupply of schops or rest of goods when the shop is closed down. The company states that they have around 14.000 vendors in their supply chain. They are willing to buy all the sizes and styles. ABC operates special hardware and software equipment which help them quickly turn around their goods and make the customers come again and again. They say they want their customers to experience „the treasure hunt“. There exist a speacial markdown system where associates remark prices every week to

quickly get rid of unpopular goods. As a result a customer can then buy Ralph Lauren shirt for 10 GBP instead of 60 GBP just because the size of that t-shirt was too small or badly marked. The company's mission is to offer common discounts from 20 to 60% of regular retail price and good quality service.

Operational and even establishing costs of their shops are relatively low and the shops are usually profitable year after their opening. TYX Inc. currently employs approximately 166.000 associates in 5 countries across two continents. All stores across ABC chain looks similar. They are usually located in civic centers, suburban shopping centers or retail parks. The stores are approximately 400 m² and sustain of 2 floors and underground storage space. There are about 10-20 tills at every store depends on the size of each shop, every store has its customer service desk, where customers can either bring the unwanted unused goods in 14 days from purchase or reclaim something. Every store also have its own small warehouse and therefore maternal company doesn't have to pay extra cash for storage space. ABC invests in shop surveillance and so minimize the risk of losses from theft and human errors.

All the associates must wear same uniform which differ by the associates role. There are equal opportunities for all races, genders and cultural beliefs however all the associates must display uniformity at work place. ABC provide vests and t-shirts in company colours. All the associates must also wear plain black trousers and plain black shoes. All shops are equiped with minimum furnishing as adjustable and movable racks and shelves to be able to easily and quickly recreate the shop looks even every evening. There exist rules for stock arrangements eg. by colour, size, brand, price, time spent on the floor and so on. Every shop usually sustain of one store manager, one vice store manager, up to 3 floor managers, customer services manager and various numbers of accosiates. The role of associates is to stock and maintain their department. The associates are being move around the departments to learn about them and not to get demotivated. The career prospects are more or less satisfiable and depends on one or another how quickly they get promoted. It usually takes one

year to be promoted onto the floor manager and up to 5 years to become store manager. (TYX.com)

2.3 PEST- The macroenvironmental analysis

Czech Republic is European independent state since 1993 and lies in central Europe. It is member of European Union since 2004, OSN member since 1945, NATO member since 1999. Geographical coordinates are 49°45'N 15°30'E 49.75°N 15.5°E. Total area of Czech Republic is 78.867 km². The neighbouring states are Germany, Poland, Austria and Slovak Republic.

❖ <i>Political forces</i>
The political system is based on the Czech Constitution which states that Czech Republic is sovereign state with unitary government, democratic order and with universally valid legal system. The power of people is delegated to legislative, executive and juridical bodies. The political system itself is pluralistic where exist various democratic parties which can compete against each other in the elections. Current government is constituted of three political parties – ODS the Civic democratic party, TOP 09 democratic party, VV the Public matters party. The opposition is constituted of ČSSD the Czech social democratic party and KSČM the Communistic party of Czech and Moravia. This government is first in many years which was created from only right-wing parties and captured the absolute majority within parliament. Previous governments were more or less depending on various alliances with opposition and that often cause them to fail to enforce their political intentions. (Portal.gov.cz, 2011)
❖ <i>Economical forces</i>
The national currency is still Czech crown. Czech Republic signed the Lisbon treaty which obliges to accept Euro implementation. But after the turmoil in Eurozone it is quite unlikely that it will happen in close future. However Czech Government keeps working on preparation for Euro adoption. (Zavedení

aura.cz, 2011) The current exchange rate of Czech crown (CZK) and Euro (EUR) is oscillating around 24 CZK per EUR. Prognosis for 2012 is oscillation around 23 CZK and in 2013 around 22 CZK. The government is facing many issues which were ignored by many of their forerunners. Most of these issues were brought to surface by the world economical crisis. National debt level has arisen to the all time high. As the property and banking sector collapsed across western countries Czech domestic product was also affected through the banking system and property market. The economy shrunk. The newest numbers show that Czech Gross Domestic Product is slowly growing by 2,8% between year 2010 and 2011 and that the main success is the one of industrial production. Strongest is the automotive industry thanks to car maker Škoda. (ČSÚ, 2011) Czech national bank made public the economical situation prognosis. The yearly inflation increment should be in high about 3%, GDP should rise by 2,2% by 2012 and by 3,8% in 2013. The interest rates 3M PRIBOR are expected to rise from 1,2% in 2011 to 2,5 in 2013. (ČNB, 2011) Overallly is Czech Republic one of the European states which were not affected by crisis as badly as others. Moody's agency made public their rating report and again Czech Republic gets the A1 rating for being stable and less vulnerable to economic downturns sourcing from Eurozone. (Moody's, 2011) Czech basic minimum wage rate for a fixed weekly working time of 40 hours is 8 000 CZK per month or 48.10 CZK per hour. (Nasepenize, 2011) The property market slowed down after the crisis, but business property renting is still quite expensive, eg. one meter square of a shop in retail park in Brno costs around 2500 CZK. per year. Prices of energies are ever growing and after the nuclear catastrophe in Japan there exist theories that after Germany decided to stop their nuclear program gradually the electricity prices will rise. The prices of petrol are one of the highest in central European region. Corporate income tax rate according to § 21 with effect from January 1st 2011 is 19%. Income tax payers are persons who are not individuals, and even government departments under a special legal rule. The revenues are subject to tax incomes from all activities and management of all property unless stated otherwise. Taxpayers are those subjects with registered office or place of

management, which means the address of the place from which the taxpayer is controlled, have a tax obligation, which applies both to income arising from sources in the Czech Republic and and income derived from sources abroad. If a subject is not located in the Czech Republic, then he has a tax obligation, which applies only to income from sources in the Czech Republic as per law n. 586/1992 Sb, (Business.center.cz. 2011)

❖ *Social forces*

Czech Statistical Office (2011) claims 10 532 770 mil. of inhabitants in 2010. Foreign Police office registered 426 749 of foreigners mostly Ukrainians (128 636 people, 30%) and Slovaks (71,392 persons, 17%). Next followed citizens from: Vietnam (60 931 persons, 14%), Russia (31,037 persons or 7%) and Poland (18,572 persons, 4%). National language is Czech and the country is organized in 14 municipal regions. Country's capital is Prague with 1209026 inhabitants, second largest city is the Moravian capital Brno with 371 399. Other city which is territorially advantageous is Ostrava which lies close to Polish borders and has 306 006 inhabitants. The unemployment rate in Czech Republic is around 7%.

Period	Total unemployment	Unemployment rate	Number of available jobs
7-11.	485 584	8.2 %	38 898
2Q / 11	354 600	6.8 %	-
6-11.	478 775	8.1 %	38 416
5-11.	489 956	8.2 %	37 649
4-11.	513 842	8.6 %	36 053
1Q / 11	376 200	7.3 %	-
3-11.	547 762	9.2 %	33 931
2-11.	566 896	9.6 %	32 164
1-11.	571 863	9.7 %	31 393
4Q / 10	363 000	7.0 %	-
12-10.	562 000	9.6 %	30 800
11-10.	506 640	8.6 %	32 337
10-10.	495 161	8.5 %	33 651
3Q / 10	374 700	7.2 %	-
9-10.	500 481	8.5 %	35 100
8-10.	501 494	8.6 %	36 567
7-10.	505 284	8.7 %	33 479
2Q / 10	375 000	7.2 %	-
6-10.	500 500	8.5 %	32 927
5-10.	514 779	8.7 %	33 105

Table 2: Recent unemployment trend between year 2010-2011, (Kurzy.cz. 2011)

Czech Republic's unemployment rate is currently oscillating between 8 and 9%. The unemployment rate is slightly changing with seasons as seasonal and student jobs are becoming available. In long term view unemployment is expected to further decrease as Czech Republic is often chosen by foreign investors as strategically advantageous destination to start new business.

The income of Czech households is constantly increasing. In 2011 average salary increased by 2.1% between Q1 2010 and Q1 2011. Real salary increased by 0.4%. Following table shows how the average salary changed since year 2007 when the average salary was 20 957 CZK and in last measured period reaches 23 144 CZK.

Period	Avg salary	Avg salary change %	Real salary change
1Q / 11	23 144 Kč	2.1 %	0.4 %
4Q / 10	25 803 Kč	0.9 %	-1.2 %
3Q / 10	23 665 Kč	2.0 %	0.1 %
2Q / 10	23 513 Kč	2.4 %	1.2 %
1Q / 10	22 748 Kč	2.2 %	1.5 %
R / 09	23 488 Kč	4.0 %	3.0 %
4Q / 09	25 565 Kč	5.2 %	4.8 %
3Q / 09	23 192 Kč	4.6 %	4.5 %
2Q / 09	22 971 Kč	3.2 %	1.8 %
1Q / 09	22 263 Kč	2.9 %	0.8 %
R / 08	22 691 Kč	8.3 %	1.9 %
4Q / 08	24 484 Kč	8.1 %	3.2 %
3Q / 08	22 282 Kč	7.5 %	0.8 %
2Q / 08	22 370 Kč	7.9 %	1.0 %
1Q / 08	21 647 Kč	10.0 %	2.4 %
R / 07	20 957 Kč	7.2 %	4.3 %
4Q / 07	22 641 Kč	6.5 %	1.6 %
3Q / 07	20 721 Kč	7.3 %	4.7 %
2Q / 07	20 740 Kč	7.5 %	7.8 %
1Q / 07	19 687 Kč	7.8 %	6.2 %

Table 3: Salary, salary development, average salary 2011 (Kurzy.cz, 2011)

❖ *Technological forces*

Every company which wants to do business in Czech Republic must comply with Czech and European technological norms. The responsible body is the Office for Standards, Metrology and Testing which was established by the Czech National Council No. 20/1993 coll. Their aim is to provide Security Administration in the field of technical standardization, metrology and testing. OSMT is a state organization under the jurisdiction of the Ministry for Industry

and Trade. The main mission of OSMT is to handle tasks arising from Czech and European law regarding standards, metrology and testing and other tasks in the field of technical regulations and standards. Since 2009 OMT creates and public the Czech technical standards. (UNMZ, 2011)

2.4 Porter's Five forces microenvironmental analysis of ABC

As mentioned in the theoretical part of this master thesis the Porter's five forces analyzes researches the microenvironmental factors which influence the company's business existence.

❖ <i>The likelihood of new entry</i>
Despite the fact that seemingly any company could enter the off-price retail industry, the likelihood of it is quite low. To be able to establish stores like ABC company would needed to be well connected with designers and other subjects which trade clothes, shoes and accessories. Lack of these connections could be fatal, as company would not be able to gather enough quality goods at low prices. Besides the relations with designers there are other barriers: high marketing costs, high property costs, lack of know how in pricing and so on.
❖ <i>The power of buyers</i>
As ABC does not practise B2B trade the power of buyers is not that strong determinant of their prices. The only buyers of the clothes are their end customers and they do not have much power to influence the prices. On the other hand it is important to say, that ABC pricing policy is based on the fact, that company passes the saved value from their suppliers onto their customers and therefore the prices are up to 60% lower than in normal full price retail. ABC does not offer any further dicounts as other shops do, because their prices are dicounted all the time.
❖ <i>The power of suppliers</i>
„The stronger the power of suppliers in an industry the more difficult it is for firms within that sector to make a profit because suppliers can determine the

terms and conditions on which business is conducted.”(Oxford university press, 2007)
The above mentioned fact is true in classic retail industry, but within off-price industry it is the off-price retailer who more or less dictate the prices. The magic is in the fact, that if ABC and other off-price retailers wouldn't buy the unwanted stock suppliers would loose much more money than if they accept their offers. As mentioned earlier in the text, off-price retailers must have very good relations with designers, and those relations were in case of ABC built for nearly a century now. The suppliers negotiation power therefore changes into both side advantageous relationship.
❖ <i>The degree of rivalry</i>
There exist other off-price retailers within the USA but their field of interests end with US borders. ABC resp. TYX companies are the only off-price chain with the world wide field of scope. If we look at Czech market there exist only few off-price chains with designer goods and even then their prices cannot compete with ABC prices at all. These outlet retailers as they call themselves are usually spread across the country outside of big city centers. But ABC stores are tend to be located in town centers or big succesfull shopping centers due to their ability to source cheap properties and maintain reliable relations with the landlords.
❖ <i>The substitute threat</i>
The threat of substitution always exists but as it represents how easily can consumers switch to another product of same functioning based on their preferences and price, ABC has significant advantage because their prices are always lower than those of normal retailers and other off-price companies. ABC also pay attention to be able to deliver new stock very often so the customers stay interested. The wide range of products also lowers the substitute threat. When a customer comes to the shop wanting to buy a pair of shoes he may want to buy something else from homeware or some kids toys. By widening the portfolio of products ABC increases the chance of winning the customer. Because there exist various types of clothes for men, woman and kids ranging from ladies gowns to men skiing jackets, customers can easily

buy their whole wardrobe and much more under one roof at great quality and low price.

2.5 Competition analysis

The off-price retail market in Czech Republic is represented by so called outlets which are located in different regions. Those most famous are the outlet in Štěrboholy-Prague, Outlet Tluchoměřice near Prague airport Ruzyně, Outlet Loket located on 66th exit of D1 motorway between Prague and Brno in town Brzotice, Freeport Hatě near town Znojmo. These outlets usually consist of many brand factory stores which offer between 30-70% sale. These big outlets mostly sell current and past season fashion, sports wear, accessories, home ware and much more. There exist many similarities between all of them and it is the remote location, designer brand focus and discounted prices. These outlets are usually located outside the city centers and mostly even outside cities on various motorways. (Outlety vcr.cz.2011) The outlets are basically orientated on a customer who like designer clothes but don't really care if the fashion is latest and don't want to pay high street price for it. However this customer is still paying quite a higher price for the designer clothes in comparison with cheaper clothes from supermarket or no name clothes from a boutique in town. Other competitors can be considered all the retailers selling clothes. ABC is usually located in town center where other boutiques sell their seasonal goods. The stores in lucrative location sell full price goods and pay high rents. The main differences between them and ABC is the portfolio of products which ABC would offer, low prices, various brands in one store and so on. There exist many clothes and shoes retailers in Czech Republic such as Mango, H&M, Zara, Orsey, C&A, Peek & Cloppenburg Reserved, Takko, Camaieu, Nico, Bushman, Giga sport, Top Shop and others. They differ in prices, quality and offer. Eventually any clothes, shoes, accessories and home ware retailer can compete with ABC and take over potential customers. Big supermarkets like Tesco, Interspar or Globus also introduced their clothes and shoe lines. The competitors can be also considered the market-hall traders with cheap Asian

textile. However non of these retailers sell such wide range of designer clothes, shoes and other goods as ABC at such prices.

2.6 The McKinsey's 7S internal analysis

The 7s framework looks at the internal key success factors of a company which has influence on its business. These factors were identified as either „hard“ or „soft“.

The hard factors are the strategy, structure and systems. The soft factors are shared value, skills, staff and style.

❖ <i>Strategy</i>
ABC strategy is centralized. The maternal's company TYX companies management is deciding on any strategical changes within the company. The company's strategy is to capture the middle to-upper middle income shoppers around the Europe and offer them great branded goods at low price thanks to passing the gained value from suppliers to their customers.
❖ <i>Structure</i>
ABC division of TYX companies is organized in traditional way. The headquartes are organized in more or less divisional structure and are subordinated to the TYX companies Inc. The chain sustain of the shops where the structure is flat. One store manager is responsible for everything regarding the shop in overall. There exist one vice store manager, shift managers, floor managers and groups of associates.
❖ <i>Systems</i>
ABC uses their information system which helps the company effectively organize its business. All the stores are connected within one network. It means all the cashiers, ticketing machines, cameras, alarms, safes and so on can be operated from remote control desktop and easily manageable and reparable. The hardware and software daily issues are being resolved by the

<p>dedicated outsourced company. For those issues which require physical assistance the outsourced technicians are ready to go to the store and solve the issues. The managerial staff can easily report to the headquarters and control the shop performance. This information system holds valued information about performances and can therefore be used as informational tool. Associates can see their worked hours, their sales performances and so on.</p>	
❖	<i>Shared values</i>
<p>Shared values in ABC are well known to all the staff. The associates are properly trained on core values and are given the employee handbook to be able to review it anytime. Managers are responsible to ensure all the staff work in accordance with shared values-always satisfy the customer and protect company's interest.</p>	
❖	<i>Skills</i>
<p>The staff is being trained on regular basis. The new joiner training is given and periodically updated to help the associates better manage their work. As the associates grows within the company, he or she is being promoted and continouasly trained for their current responsibilities. Based on the reports generated from the information systems, the managers can assess their employees skills and attitude to work.</p>	
❖	<i>Style</i>
<p>This presents the type of leadership and culture within the company. The leadership in the stores is ment to be liberal with focus on needs of individuals. But this can slightly vary with particular managers. In case of any work or behavioral issues, the associates have the possibility to escalate it to their direct manager and bring the issue up to the store manager. There exist code of conduct and dress code which is obligatory and any breach can lead to disciplinary hearing and eventually to the dismissal. The associates are trained to be open minded and helpfull to other staff or customers. Their positive attitude towards company and its shared values are part of interviewing process and succesfull candidates must demonstrate its acceptance.</p>	

❖ <i>Staff</i>
<p>ABC offers equal opportunities for everybody. The diversity of its staff is what makes the company true global leader. There is a strong attitude against the discrimination of any kind. ABC employs people who are open minded and willing to work hard towards achievements. There exist no special requirements on education or experience to get a job. Anybody who wants to be a manager at ABC shop needs to firstly become associate, prove his skills and devotion. To last at least a year on a similar position within a store is needed to gain full knowledge of the store departments.</p>

2.7 Customer survey

This customer survey's purpose is to confirm or falsify the attractiveness of the Czech market for company ABC. The survey has been conducted as online survey and on street survey. The survey has been created via specialized online survey tool at web site www.kwiksurveys.com. The questionnaire has been created to reflect respondent's interests in branded goods such as clothes, shoes, accessories, home ware and toys. A set of questions has been asked to verify if any respondents purchase these commodities, how often, for how much money, under what circumstances. Respondents were asked questions related to branded goods, outlets and their shopping habits, and were asked to describe their experiences with other off-price retailers, rate their experience and identify their attitude towards them. This survey was anonymous and all age groups have been selected for questioning. The aim of this survey was also to introduce ABC as off-price fashion store and find out how many people from selected respondents know this brand. The questionnaire sustained of 25 mainly closed questions. In total 143 respondents took part in this survey. Only those questionnaires fully answered were used.

2.8 Customer survey results

- ❖ 52% of respondents were woman and 48% were men
- ❖ 67% of respondents said they buy clothes at least once a month, 28% more than twice a month, 5% once a year.
- ❖ 52% claimed that clothes is what they buy most often, 18% buy shoes most often, 12% buy accessories, 12% buy homeware and 6% of respondents buy toys most often.
- ❖ Most of the respondents said that quality is the most important aspect when buying clothes, shoes etc., followed by price, selection and brand, the least important factor is advertisement.
- ❖ 46% of respondents constated that they care about brand and do not buy unknown brands, 40% insisted that do not care about brands and don't buy branded products, 14% admitted they cannot afford branded goods.
- ❖ When asked to name favorite brands the respondents mentioned many of brands ABC sell in its stores on regular basis. Amongst them were eg. ED HARDY, Calvin Klein, Eight Sin, ABERCROMBIE & FITCH, Adidas, Puma, Hannah, Zone, Tommy Hilfiger, Lacoste, Nike, Polo Ralph Lauren, Levis, Nord Blanc and many more.
- ❖ 42% of respondents think that Czech prices of branded clothes, shoes, accessories, home ware and toys are too high, 45% think that even immoderate, 10% thinks prices are adequate and 3% think prices are low.
- ❖ 41% respondents said they would be attracted by 20-40% sale sale on the branded goods, 22% they would be attracted by 40-60% and 37% said more than 60% sale would attact them.
- ❖ 64% of respondents said they sometimes shop in outlets, 19% often shop in outlets but also shop elsewhere, 5% claim they buy clothes only in outlet stores and 14% never shopped at any such store.
- ❖ When asked to rate other off-price retailers, 33% of respondents rated prices and selection of goods with maxium 4 star out of 4, but same percentage of people gave it only 2 star rating. The quality of goods was given 3 stars by 41% of respondents, but only 19% awarded 4 star rating.

Significant rating was given to the availability of sizes, total of 52% of respondents gave 2 star rating.

- ❖ The respondents were asked if the outlets they visited satisfied them. 37% were dissatisfied as prices were still too high, 18,5% said that prices were fine, but quality not, 22% said both quality and prices were fine, 15% said they were utterly dissatisfied and 7.5% didn't like the location but overallly liked the outlets.
- ❖ The respondents were given a question related to the internet. 40% said they regularly shop on internet, 40% admitted they shopped on internet before, 14% doesn't shop on internet at all and only 6% buy goods only there.
- ❖ When asked to say what parameters must a website have to attract them, 25% respondents said it must contain clear and detailed pictures of the goods, 19% said that safety and 19% said that usability is also most important, total of 18% of respondents also chosen customer service as important aspect to attract them. Only 12% want to pay online and 7% would like to see a nice design of the website.
- ❖ 39% of respondents say that when a new products are introduced they hear about them first from internet, 27% get the news from their relatives, 24% from paper marketing as magazines or leaflets, 10% from television.
- ❖ Locality is not important in case of outlet for 37% of respondents as they have car, 15% doesn't own a car and don't like travelling to shops, 25% would mind travelling if there is a free bus to take, 23% prefer shops in walking distance within town centre.
- ❖ 14% of respondents said they spend more than 20 000 CZK per year on clothes, shoes, accessories, 35% of respondents say they spend more than 10 000 CZK, 23% spend between 5000 to 10 000 CZK, 21% less than 5000 CZK, only 7% say they spend more than 50 000 CZK.
- ❖ 39,5% of respondents said they spend less then 5000 CZK on homeware every year, 21,5% spend between 5000 to 10000 CZK, 27% spend more

than 10 000 CZK, 4% spend more than 20 000 CZK, 8% spend more than 50 000 CZK.

- ❖ 57% say that they don't buy toys, 32% spend up to 5000 CZK on toys every year, 4% spend up to 10 000 CZK and 7% spend more than 10 000 CZK.
- ❖ 79% of all respondents said they would welcome a possibility to return unused goods within first 14 days from purchase, 18% said it doesn't matter to them and 3% said they wouldn't welcome it.
- ❖ 57% of respondents said they only sometimes use various vouchers, coupons and gift cards, 25% said they regularly use them, 4% often uses them and 14% don't use them at all.
- ❖ 42% of respondents said they would participate on some charity event but depends on what type, 35% would welcome such opportunity, 12% prefer other type of donating, 11% is not supportive to these events at all.
- ❖ When asked if respondents are buying eco friendly products and don't mind to pay extra money for it, 32% said they purchased eco friendly products only few times in their lives, 32% purchase them often but not as often as normal products, 29% buy the eco friendly products very often and 7% doesn't buy them at all.
- ❖ In total 53% of respondents never heard about ABC before, 32% said they know ABC and shop there before and 15% heard about it but never been there.
- ❖ „Big Brands, small prices“ main motto of ABC would attract 39% of respondents, 46% would perhaps be attracted by this motto and 15% said they don't understand the meaning of this motto.
- ❖ 68% of respondents said they would definitely come to the shop were big brands as Tommy Hilfiger, Diesel, Replay, Ralph Lauren, Levis, Hugo Boss, DKNY, Emporio Armani, Calvin Klein, Valentino, Adidas, Nike, Puma, Hannah, Burton, Rossignol, Carrera, Supreme Being, Element, Quicksilver, Roxy, Bench, Surfanic are sold with 60% sale , all the rest of respondents said they would also be quite likely to come.

2.9 ABC SWOT analysis

Internal Strengths	Internal Weaknesses
<ul style="list-style-type: none"> ❖ Strong financial performance: sales of 21.9 billion USD = 8% increase in sales in 2010. ❖ Knowledgeable management with cost cutting awareness. ❖ Good relations within their supply chain. ❖ Strong brand and effective marketing ❖ Store locations ❖ Corporate processes ❖ International uniform strategy 	<ul style="list-style-type: none"> ❖ Unknown brand ❖ Higher setting cost ❖ Lower quality of stock ❖ Lost prevention ❖ Technical equipment failures ❖ Limited distribution channels
<ul style="list-style-type: none"> ❖ Development and utilization of Czech retail market ❖ Development of new or existing distribution channels ❖ Introduction of new products ❖ Outsourced corporate processes ❖ New market segmentation ❖ Strategic alliances and supply chain development 	<ul style="list-style-type: none"> ❖ Low customer interest ❖ Strong existing and new competitors ❖ Price wars and strategies of other retailers ❖ Rising energy and property costs ❖ Rising tax burden ❖ Other national legislative regulations and E.U. regulations adjustment
External Opportunities	External Threats

Table 4: SWOT analysis of ABC, (author, 2011)

The SWOT analysis of ABC shows that company has wide range of strenghts and opportunities to succesfully enter Czech off-price retail market. There is a limited amount of the off-price chains such as ABC and Czech customers still mainly buy clothes, accessories and home equipment and other commodities for full prices. Strong performances in the United Kingdom, Ireland, Germany and finally Poland proves that value is what customers across nations are looking for and that ABC strategy adapted to biggest European market already. Even then the company should ensure that internal weaknesses won't influence the performance within new market and that customers will start to shop at their stores on regular basis. There exist wide range of competitors within the retail industry. Czechs are used to shop in their favorite stores. Since early 1990's many retailers entered and also left Czech market. Those who would compete with ABC the most were analyzed earlier. As Czech government deals with financial crisis and budget deficit ABC needs to make sure the legislative changes won't have negative impact on company's financial results.

PROBLEM ANALYSIS AND CURRENT SITUATION OVERVIEW

The aim of this part of master thesis was to review the marketing environment of ABC and to research Czech market attractiveness. ABC is a part of TYX companies Inc. is a global leader in the off-price retail industry with focus on branded goods reselling. ABC reported success on all the entered markets and manifested that their corporate strategy has potential to succeed in other European countries. The company believes that no matter of economical situation customers always want to buy great designer goods for small prices. Their mutual relationships with designers, landlords, distributors and other outsourced providers are crucial success factors. Their ability to cut operational cost and quickly turnover the goods help generate significant profits. The 7S analysis shows that ABC is well organized company with exact procedures and rules. The management of this company understands not only the importance of quality stock, but also other factors which influence customer satisfaction such as good customer service, great store locations, excellent marketing activities and friendly and capable staff. ABC uses advanced information systems to provide excellent services at any time deploying modern accounting systems and preventing losses. Their diversified staff and global approach makes ABC modern open minded company which employs people of all races and beliefs and make them work towards common goals.

The macroenvironmental analysis of Czech Republic shows that even the recession hit the country, Czech economy has recovered fast and keeps improving. For many other international companies Czech Republic is one of the most favorite places to set up new business thanks to its stability, great education system which brings capable employees and good strategical location. Czech Republic is small country and the potential profits may not be that high as in Poland or Germany but ABC demonstrated especially in United Kingdom, that their stores can succeed in small towns as well as in big cities as

London. The off-price retail market in Czech Republic is quite small and people still buy clothes, shoes, accessories, homeware and toys for full prices. If we compare the prices in Western Europe we can see that retailers in Czech Republic often increase the prices. The microenvironmental analysis showed that even there exist some barriers of entry and possible threats ABC strong corporate strategy and good financial results enable further foreign expansion. However because of a limited consciousness about ABC, the marketing activities must be well targeted to attract Czech people to shop at ABC. So far the off-price retailers so called outlets are very few and they are located in less favorable places than where ABC plans to be. The customer survey also pointed out that people think that their prices are still too high and the quality sometimes isn't as good as they would want. The customer survey proves the attractiveness of Czech market and shows interest in branded goods for low prices. The respondents agreed that they would be interested in shop like ABC because they don't like spend too much money on high street branded goods.

3. OWN PROPOSALS AND SOLUTIONS FOR ABC

Based on findings from previous part of this thesis, it can be suggested that Czech market is quite attractive to enter and therefore exist fair chance that ABC would succeed there. The recommendations for ABC regarding their market entry strategy will be to enter the Czech off-price retail market and to build up to 4 stores in the first phase of the market entry. The market entry mode which ABC should choose should be the same as in Germany and Poland therefore the greenfield investment. The objectives and targets would be to enter the market, successfully start to operate all the stores and build up the brand within first year from the investment.

3.1 ABC CZECH STP strategy

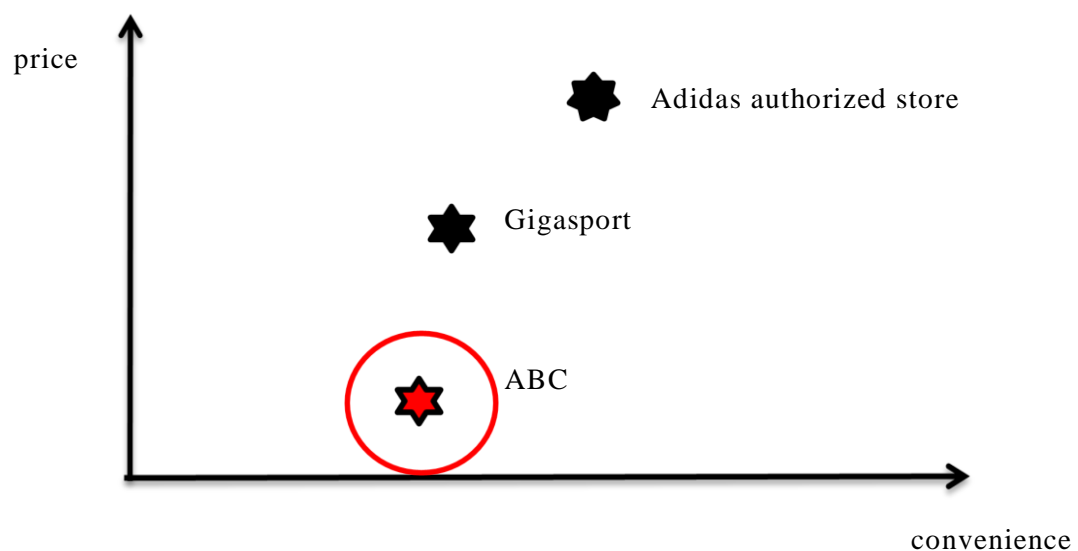
3.1.1 Target group

ABC should focus on consumers between 15- 35 years old. The focus should be very similar to the strategy in other countries therefore on middle classed people who like branded goods and care about the brands they wear and use. The main focus should be on women as women shop clothes, shoes and homeware for themselves more often than men and also are more likely to follow the fashion trends. Women also buy clothes for other family members with bigger confidence than men.

3.1.2 Positioning

ABC position against other competitors can be expressed by following graph which compares prices and convenience of different competitors which sell same branded goods. The example can be shown for brand Adidas, which is sold in Adidas authorized stores, Giga sport, and so on versus ABC. In

authorized store a T-shirt can cost up to 1000CZK, in Gigasport same or similar Adidas t-shirt can cost about 600 CZK, but ABC can sell same or similar t-shirt for 300 CZK. ABC should position itself in the mind of customers as the store which always sells same branded and quality goods as authorized stores or other retailers but always for up to 60% cheaper. To establish ABC in the minds of customers there should be PR campaigns conducted to pass the information about brand, image, price, quality, convenience and so on. The specialized PR campaigns should be run by appointed Area manager who is responsible for entering and developing new market.



Graph 2: ABC positioning against competition, (author, 2011)

3.1.3 Reason to believe

Is what drives business forward. ABC's reason to believe in success comes from the appreciation of their own advantage against other competitors. Why should customers shop at ABC? Because ABC promise is to always deliver premium goods for small prices. ABC brand should be build on this promise in Czech Republic as in other countries. It should not change after time, the value should always be passed from suppliers directly to the customers thanks to efficient supply chain management and cost cutting awareness

3.1.4 Point of difference

Difference between other shops with clothes, shoes, accessories, home ware, toys etc. is first of all in the prices. No matter what sale other retailers put on the goods, ABC 's prices will always be lower. The shops will always be in accessible location such as high streets or bussy shopping centers. The assortment is never limited, over 50 000 pieces of stock is in average ABC every day and more new stock is being put on shelves every day, so customers can never get bored of shopping. The goods are always carefully selected from more than 14 000 suppliers and always with great quality and style. ABC follows latest fashion trends and tastes of the customers. What customers can see on Fashion week they can get in ABC within week. Czech ABC should be the same in all these aspects.

3.2 6P Marketing mix for ABC Czech Republic

3.2.1 Place

In the first phase of the market entry the stores should be opened in Prague, Brno, Ostrava and Plzeň. These four biggest cities with their agglomeration are inhabited by nearly 3 mil. of inhabitants what is nearly one third of Czech population and are considered as cultural, educational and business centers. Most of the biggest international companies are based in these cities, and sometimes having affiliated branches in more than one of them. It means that these cities are also populated by mostly employed people and also most of the middle to-upper middle income shoppers live in those cities. Good location of these cities is also important aspect as people from outside the cities can easily get there. In most of these cities there exist big shopping centers and often visited city centers, so there exist wide range of possible store locations to choose from. The best location would be right next to the big competitors, so people can quickly compare the shops. For Prague the recommendation is that ABC should not be based directly in city center as prices of properties are very

high. To not endanger the existence of Prague shop ABC should be based in some of the big shopping centers as in Letňany, Chodov, Štěrboholy, Butovice, Zličín, Novodvorská Plazza, Anděl and so on. In Brno the possibilities are slightly different as properties are less expensive in city center. ABC usually is based in city centers but also in side shopping centers. In Brno the best location would be Náměstí Svobody, the main city square, but because of needed space of around 300 m² and actual occupation of the available stores ABC should rather seek a property in some of the shopping centers. The shopping centers are Vaňkovka, Velký Špalíček, Olympia, Avion Shopping park and Futurum Brno. In Plzeň ABC should be placed in city center. In Ostrava there are many shopping centers similar to those in Brno and also with same owners so the discounted rent could be contracted. There is Avion Shopping park Ostrava and Futurum Ostrava. But because Ostrava lies in poorer region the shop could be in city center too. These four cities are strategically advantageous as they lie on main trading routes and can be accessed easily. ABC doesn't have large warehouses in every shop. As the goods are coming directly on the shelves, only limited storage rooms are needed on site. ABC rents warehouses to store and sort out the goods which are then shipped to the stores. This should be the case in Czech Republic too. The properties are expensive and so ABC should follow their existing strategy and cut costs of setting the stores to the minimum. ABC rents the properties in other countries so could do in Czech Republic. ABC could also build their own properties by investing in industrial new builds such as prefab steel constructions which are relatively cheaper than rented properties in the long term view. The ideal property should have at least 300 m² because each store should carry over 50,000 items in stock at any one time and typically should have 10,000 new items arriving every week. The property should be chosen so the store can be built there with all the equipment and appliances. The stores need to be equipped as in other countries to match the corporate image abroad. The costs of the equipment are estimated to 70 000 EUR. The equipment sustains of metal shelves, racks, hooks, furnishing of the cashiers, shop background, storage rooms, server rooms, fitting rooms, employee rooms, safe room, surveillance room, management office and payroll

room. This equipment should be sourced from the same company which provides for the UK, DE, PL shops, but other appliances may be found within Czech Republic. The properties must ideally be administered by specialized company or property owner as the properties need to be maintained regularly, e.g. airconditioning maintenance, cleaning services and so on. The property costs per month are expected to be on average 200 000 CZK per month and shop. The highest rent is expected in Prague and lowest in Plzeň. This is just an estimation and real rental costs can vary based on the length of the contract and other factors as same property owners in different cities.

3.2.2 Product

In the first phase ABC should decide what type of assortment will be sold. The recommendation is to first start sell branded clothes, shoes and accessories for both women and men. The kids department should be limited to baby clothes in first few months of the run to make sure people will not get scared of the amount of goods on the shelves. Czechs are used to shop in more or less tidy shops so if ABC would open store which is overloaded it could damage the image and evoke the impression of dolly-shop. Eventually toys can be added and kids ranges up to 14 years of age. The latest addition should be homeware. After year or so other departments can be added. The branded products should always be not more than one season old, in addition the product line should be changed as the season changes. For spring and summer there should be focus on dresses, t-shirts, cardigans, jeans, shorts, swimwear and so on. In the fall and winter season the assortment should be focused on jumpers, coats, trousers, jeans, warming accessories like gloves, hats, caps, scarfs, boots, winter jackets, skiing suits, skiing accessories like goggles and so on. Around the busiest time of the year which is traditionally Christmas, ABC should also introduce great gifts such as luxury creams, cosmetics, spa accessories, books or cds. The products should be fresh every week and this may be managed by reticketing of prices. The products which are hard to sell should be discounted to the minimum price and put on the clearance. The clearance is a assortment of goods

which are usually based deeper in the shops to be the last thing customers can see, so they won't miss full price goods. The products's place should be swapped regularly so the look of the shops changes. For example in summer time the tanning creams, flipflops, towels, swimwear and other seasonal goods should be placed close to the entrance as customers are often attracted by what they see first. In winter time, jackets, coats and trousers with warming accessories should be placed visibly.

3.2.3 Price

The prices of the goods are in general hard to determine as the trends and seasons changes often. In general ABC is closing new deals with suppliers every day so the shelves are never empty. This trend should also be imitated in Czech stores as the freshness is what brings customers back to the store. The difference between British, German, Polish and Czech market is in its size. Therefore the prices cannot be matched. The margin ABC should have on its goods should be at least 10% higher than on other markets. In practise it means that Roxy t-shirts which costs 1000 CZK in Quicksilver shops, 700 CZK in shops like Giga sport and approximately 270 CZK in British ABC will cost on average 10% more. Therefore the price in Czech ABC should be around 370 CZK. The prices should vary with the value of the goods, it mean most popular and expensive brands can cost more than ordinary goods. As an example can serve slight overview of average prices in United Kingdom :Jeans: from 15.99-39.99 GBP, Shirts and T-shirts: from 15.99-29.99, Jackets: from 29.99-59.99 GBP, Shoes: from 9.99-69.99 GBP and so on. The prices could be higher for sure, but by widening the portfolio of products and putting different margins on different type of goods should assure the profits. The customer survey showed that 67% of the respondents buys close, shoes, accessories, homeware or toys at least once a month and 28% stated they purchase these commodities at least twice a month. The respondents also admitted that at least 50% of them spend yearly at least 10 000 CZK on clothes, shoes and accessories. Therefore the premise is that fresh and new deliveries every two or three days will keep these

shoppers satisfied. Because ABC needs to turnover their goods quickly the prices should be reviewed every week and goods needs to be reticketed and discounted by certain percents. Usually it is about 5-10% every week. Czech people as anywhere else are attracted by sales and discounts and that fact has been demonstrated by the customer survey, where all the respondents agreed to come to the store where 60% sale is given on all the branded goods in comparison to the high street retailers. After all the incomes from sold goods needs to cover all the operational and other costs. Based on customer survey customers like to use gift cards and vouchers and don't mind to pay little extra money for eco-friendly products, ABC should introduce charged plastic bags on the stores to prevent people from overusing them and replace them with more durable „green bags“.

3.2.4 Promotion

The promotion should be aimed at local market. ABC usually doesn't have all year national campaign. The national campaign should be only used while promoting Christmas offers which drives the most customers into the stores. The recommendation would be to first start with

❖ *local leaflet campaign prior the entry.*

The leaflets should be printed and inserted into people's letter box. The leaflets should inform customers that ABC is about to come to Czech Republic and offer them great premium goods for outlet prices. Some introductory offer can be attached

❖ *buy 2 get 1 for free.*

Prior the entry campaign could also be

❖ *in radio*

where prices are much lower than in TV. Radio Kiss Hady or Frekvence 1 are most favorite radios. After the initial entry, another leaflet campaign can follow with some type of competition. The example can be

❖ *sms competition*

where women and girls has to correctly answer easy question about ABC and have opportunity to win a one day shopping at ABC for themselves and a girlfriend for free. The leaflets can be then distributed to various office centers where target groups are based. The recommendation is

❖ *to hire amount of girl and boy brigadiers to promote ABC*

dress them up in latest fashion and send them to the streets, colleges, universities, city centers or other public spaces.

They should promote ABC in fresh way and demonstrate how high-quality and beautiful fashion people can buy at ABC for less than expected. Part of this direct campaign can be giving away of various vouchers, offers, leaflets, small gifts or pens. Other campaign which is recommended is

❖ *billboard campaign*

Here it needs little bit guessing from customers and funky games. Prior the entry, billboards can only show pictures of beautiful people dress up in great clothes, shoes and accessories with some edgy message e.g. : Girlfriends dressing room where 2 girls are having moody face expression and third girl is mysteriously smiling , dressed in latest fashion trends with small ABC label visible somewhere on the billboard. Other on street campaign can be more interactive. With smaller space to use, items can be pictured on small wall advertisement eg. tram stops, tobacco shops and so on and ballpoint pen may be attached and asking people to say how much they think that t-shirts is worth. People will eventually play the game and after few days or weeks, this items will be pictured in same spot with famous ABC prices. More billboards should be placed right next to competitor shops and differences should be pointed out. Text and pictures can show eg. „Peek and Clopenburg sells this to you for 1000

CZK? Gosh we have it for 300 CZK, ABC! “. This is more aggressive form of marketing. To support the on street marketing the online marketing should follow. Some type of PPC campaigns, email-marketing, SEO optimization of web search engines, social network campaigns such Facebook or Twitter or registration to goods search engines like zbozi.cz and similar. Lastly

❖ **printed advertisement in various magazines**

may be selected to further support the promotion, magazines should be selected based on their readers, it means to attract defined target group best magazines will be Cosmopolitan, Joy, Lucky star, Cosmogirl, Maxim, Esquire, Reflex and so on. Advertisement of the A5 format should be enough. Other promotion which can be done and is quite modern these days is to sponsor some kind of TV program, eg. program on TV Prima called „Couple years younger“ where people undergo cosmetic and fashion transformation. ABC could use this program and eg. give clothes to those woman who take part in the transformation. The brand can appear somewhere during the program and therefore present ABC as right choice to transform a wardrobe. Also other form of more

❖ **targeted advertisement is the SMS adds**

when people get closer to ABC they receive message which invites them to shop at the store.

Here are some examples of how the billboards and leaflets could look like.

Picture 5, 6, 7, 8: Example of billboard and leaflet campaign for ABC, (author, 2011)

3.2.5 Personnel

In order to enter the Czech market ABC needs to first appoint the Area manager who will be responsible for the Czech market business development. Area manager should be responsible for the appointing of the store managers and should manage all the marketing development, contracts with suppliers, oversee the business development of the stores and build public relations. The area manager should definitely be appointed from inside the company and preferably expatriated from United Kingdom, Germany or Poland. Same pattern should be followed regarding store managers. Ideally the store manager needs to be well experienced on the same position and should speak fluent Czech or Slovak. The store manager's responsibilities are managing the store, select right candidates for other managerial jobs, oversee the deliveries, financial results, human resource issues, marketing of the goods and so on. The store manager needs to report back to the area manager. As the trends and tastes changes very often the area manager and store managers must work closely to be able to quickly react and adapt the offering. Store manager needs to hire his vice store manager who is backing him up in his absence. The vice store manager doesn't have to be expatriate and preferably should be local. The hiring of local employees instead of expatriates is money-wise as the salaries in Czech Republic are lower than in the other regions where ABC operates. In Poland the wages are similar and also the cultural similarities could be helpful. Many Polish people who lives and works on Czech-Polish border can speak Czech and so could participate in training program and hiring. Approximately further two floor managers are needed. These also should be hired from local intelligence. Because ABC sells many different goods, the associates must be chosen accordingly. Up to 12 associates are estimated to be able to work in shifts and maintain the store as there are six different departments to maintain. In most of the ABC stores the opening hours are 9-19 hours, so should be in Czech Republic. It means that 12 associates should be able to fully cover the rota. The wages in Czech retailing are slightly different from region to region. In Prague a shop assistant can earn up to 13 000 CZK netted, in Brno and other smaller cities around 10 000 CZK netto. In United Kingdom, ABC doesn't offer full

time contract right after the joining. In Czech Republic exists many possibilities how to employ so the wage costs can be as low as possible. The recommendation is to firstly offer the contract of services which is limited to 150 hours a year. Based on the skills of each associates the contract can be changed to the contract of employment which is usually used where only part time workers are needed, and lastly for those who will excel the fulltime job opportunities may be available with 3 months probation period. For the purpose of legal arrangements with employees the recommendation is to hire external human resource administrator and pay roll administrator who will closely work with HR and Pay roll department in United Kingdom and will translate and accordingly adjust the contracts and pay slips. The estimated costs of personnel per month are set to be on average around 300 000 CZK per month and per shop. This can decrease as the expatriates may leave after the local staff is ready to take over the management of the stores.

3.2.6 Processes - electronic payment systems and IT equipment

Due to the fact that customers are choosing money-less transactions more and more often ABC should make sure people can pay by a card and not worry about personel details theft. ABC experienced huge affair in 2007 when computer hackers stolen about 45 mil. credit and debit card details. In Czech Republic merchants can use the services of banks to deliver money-less transactions. In UK, Germany and Poland ABC hires company Fujitsu Siemens to deliver all the hardware needed for electronic transactions and also other machinery needed in the shops. The actual electronic payments can be carried out by some Czech bank as Česká Spořitelna or Komerční banka. As Fujitsu Siemens exist also in Czech Republic, ABC may want to start the cooperation in Czech Republic too. The big advantage would be the lower costs related to already existing contracts with the company. The appliances needed are cashiers, monitors, keyboards, payment terminals, taggers and detaggers, scanners, wireless ticketing machines, hand swipe machine, CCTV, safes, servers, wireless intrusion protection systems, tagger sensor gate, money wage,

management computers and so on. The technical support should be provided by second line support team. In UK ABC hires company Cyntergy to handle all technical requests for all the countries. Because the technical severity is quite high, ABC should not hire another company in Czech Republic, but should enable additional employees to be hired. Ideally these employees should be native speakers to ensure high quality support. This technical support then will be responsible for all the technical issues which can be solved via remote access. If the technical issues will not be sortable online, the technician must be called to swap the appliances on site. ABC always swap the appliances on the site to avoid possible losses. Other technical thing which needs to be sorted prior opening of the stores is the inside out telephone lines. The suggestion is that ABC should close the contract with eg. Telefonica O2 to ensure that the landlines will be available all the time and that people can call to the stores. However the client support line should be reachable for free. The selection procedures should be followed to ensure that the best outsourced services will be chosen while comparing quality, flexibility and price.

3.3 Distribution and Logistics

To successfully enter Czech market ABC should keep the business model from other countries and make sure that the procurement process stay fast and effective. There exist no restrictions and deadlines in ABC procurement so the company can source the best possible deals. The supply chain flexibility is what makes ABC advantageous. The short lead times of procurement enable ABC to deliver the goods from suppliers to the customers within same week. Because Czech Republic is quite close to other stores and ABC warehouses in Germany and Poland there exist no reason why the goods should be delivered less effectively. ABC delivers the goods to the shops or directly to the customers by their own trucks and electric vans and these trucks are said to have lower carbon emissions so save costs of fuels and the environment. Because of frequent deliveries it would also be worth of consideration if ABC could partner

with other stores within same locations to share the routes and trucks. This is already happening in United Kingdom, where it's been shared with drug stores Debenhams and Boots. In case of deliveries from online purchases ABC needs to select a delivery service company. It can be either any of the delivery companies like DPD or Czech Post Office. All the logistics and processing planning should remain done in United Kingdom and ABC should implement the Czech trading routes into their systems.

3.4 Website

The recommendation regarding ABC's internet activities for the first phase of the market entry would be to create presentational website only with no e-shop or possibility to order online. The chain first needs to establish the stores and make customers love the brands. The website should introduce ABC to broad public, tell them something about the company, how it works, where to find the stores and how the latest fashion trends look like. The website should also hold information about opening hours of customer service help line, where people can submit their requests, complaints and so on. The website's traffic should be monitored so the company knows how many people uses it and what type of information is sourced. The website could contain some kind of monitored and maintained blog or discussion room, so potential or existing customers can express what they would like to see in stores, what fashion they like and so on.

3.5 Market entry timeframe and estimated budget

The market entry timeframe depends on many factors and it is not easy to estimate exact lead time. All the preparations related to the market entry as marketing research, property sourcing, actual build time, human resourcing, closing contracts for outsourced services and so on can take approx. up to two years. The opening of the stores should be planned for weekend, when people don't work and can go shopping. The actual marketing campaign could possibly be planned in few phases:

- ❖ **Prior the entry campaign which should run at least 1 months**
- ❖ **After the entry aggressive campaign for about 2 months**
- ❖ **Constant local marketing campaigns to support sales**
- ❖ **Spastic seasonal campaigns e.g one months prior Christmas, beginning and ending of school holidays, seasonal campaigns etc.**

The estimation of budget also depends on which recommendation will ABC follow. It seems that in short term, the rented properties could be cheaper option, but in long term it would be less expensive to buy land and build up the stores instead. 70 000 EUR are costs of one shop to be equiped, the properties can be rented for 10 years on average for 8500 CZK per month and shop, the market entry campaigns will cost around 50 000 EUR, training of personel and expatriate costs could grow up to 12 000 EUR.

CONCLUSION

This master thesis aspiration was to prove or reject whenever ABC the only off-price global retailer can succeed in Czech Republic. The marketing strategy of ABC proved to be flexible enough to adjust to the specifics of Czech market. The marketing research conducted for the purpose of this thesis showed that there exist huge gap on the market with clothes, shoes and accessories which can be filled with brand new off-price chain which became so famous in other European countries and in United States. The price difference between ABC and other competitors can possibly changed the whole industry as middle income shoppers may realize how much advantageous shopping at ABC is. If ABC would push the prices of branded goods on the same level as did in Germany, Poland and Great Britain other retailers with clothes, shoes and accessories would have to react quickly to prevent losses in profits. ABC has unique features which are very hard to mimic. The recommendations for Czech market were to start building strong and aggressive marketing campaign which presents ABC as number one choice for shopping branded premium goods and shows the great difference between them and other retailers. The locations were also recommended so one third of Czech nation can easily reach the stores. If ABC would enter Czech market this master thesis could help them to decide on particular marketing tools which would assist them to fulfill the investors expectations. After all the foreign market entry is a complicated process and requires capable people, capital and willingness to achieve set targets. In the modern era of communication internet is strong marketing tool and for the next phase of the market entry the recommendation is to start with online store and even build more stores in Prague which is the richest region and where exist highest concentration of people who cares about their appearance. In the end everybody wants to look and feel good and ABC should continue to set trends in the fashion industry. Czech nation has been oppressed by high prices of clothes, shoes and accessories for too long. It is time to change the way we look and become as stylish as possible for less and ABC is here to deliver it.

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